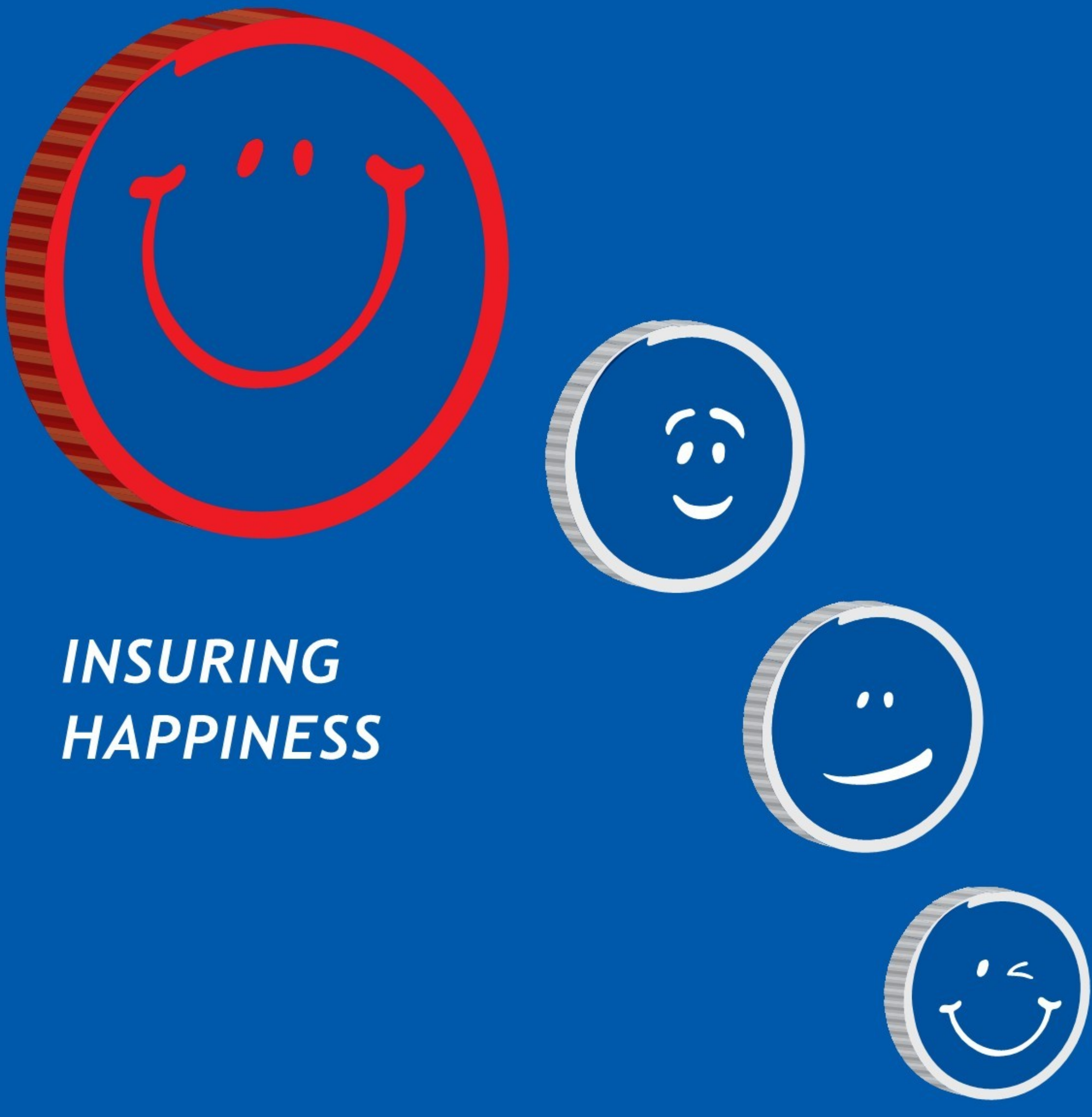
ANNUAL REPORT AND FINANCIAL STATEMENTS 2018



INSURING HAPPINESS

APA INSURANCE

www.apainsurance.org

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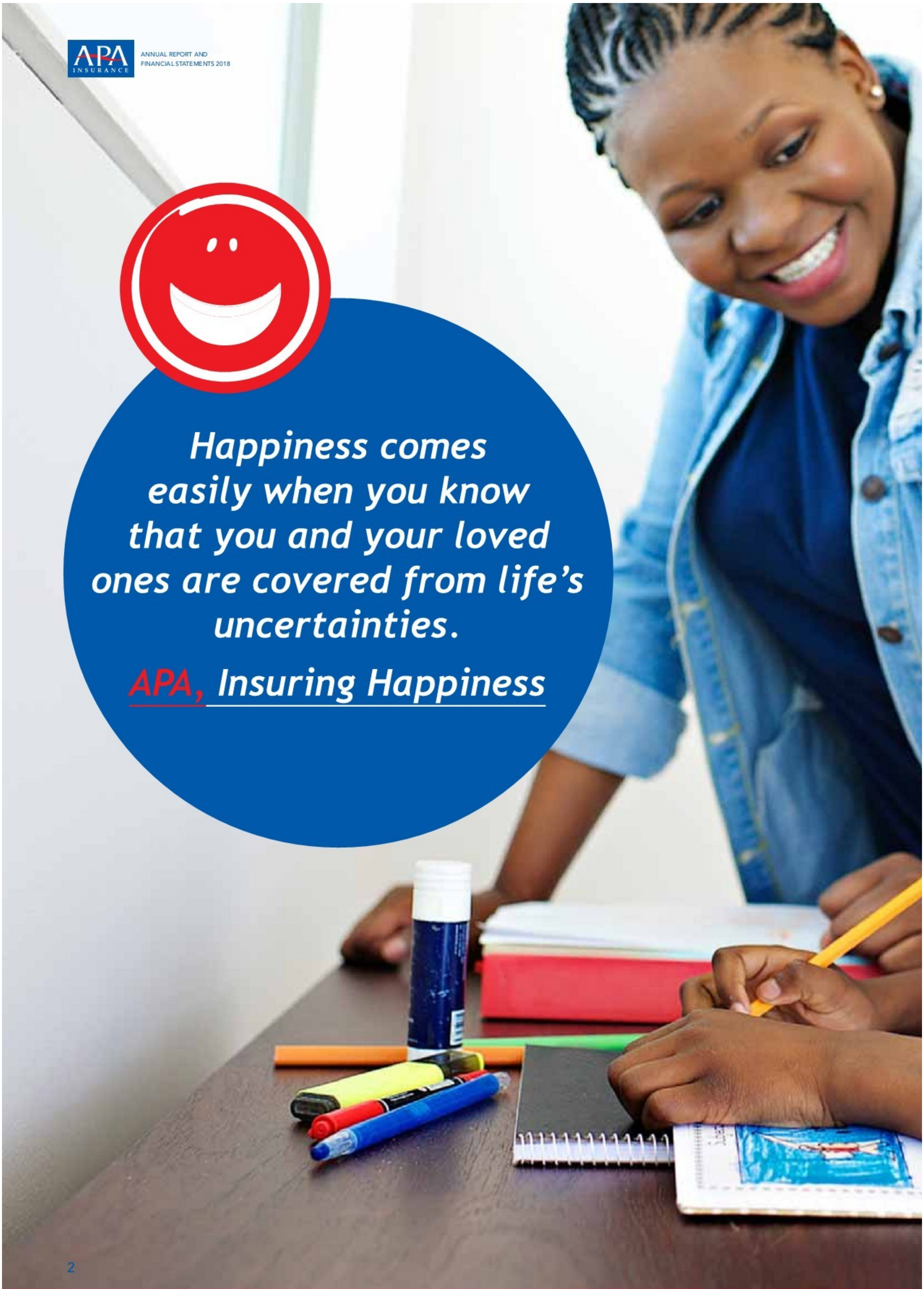
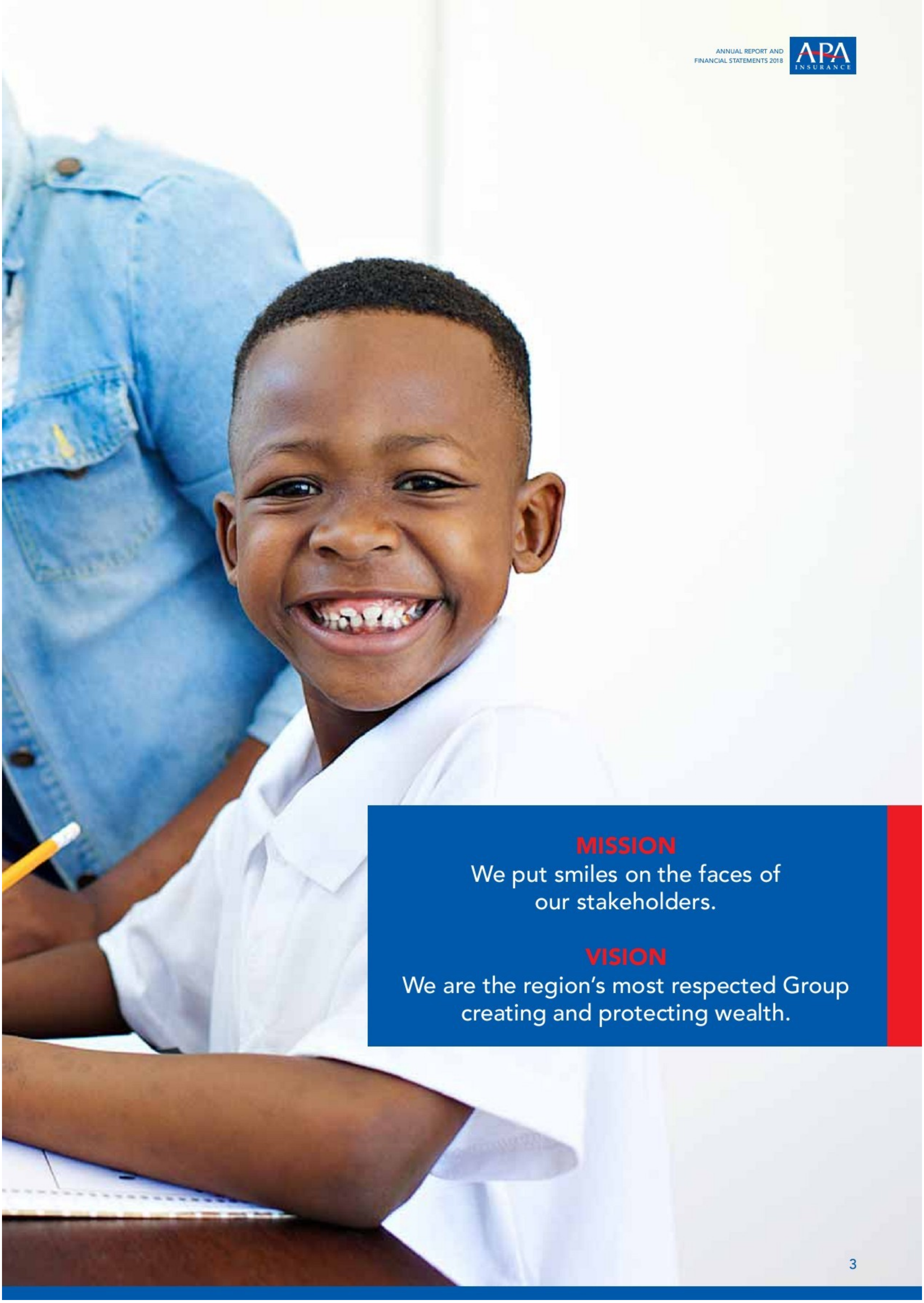

Happiness comes easily when you know that you and your loved ones are covered from life's uncertainties.
APA, Insuring Happiness



MISSION

We put smiles on the faces of our stakeholders.

VISION

We are the region's most respected Group creating and protecting wealth.

COMPANY INFORMATION

The board of directors and senior management were as follows:

BOARD OF DIRECTORS

D M Ndonye - Chairman
J N Gitoho - (resigned - 23 August 2018)
A K M Shah
S M Shah
R Schnarwiler**
R M Ashley*
P Shah*

*British **Swiss

SECRETARY

P H Shah
Certified Secretary (Kenya)

SENIOR MANAGEMENT

V Bharatan	- Chief Executive Officer
J Kigochi	- Chief Finance Officer
P Khimasia	- Chief Operating Officer
C Kamau	- Director of Business Development
M Naul	- Director Operations
A Mabuka	- Director of Business Development
S Gichuhi	- Head of Health Business Development
S Goswami	- Head of Health Claims
L Kuria	- Head of Care Team
C Ngala	- Group Head of Internal Audit
J Nyakomitta	- Group Chief Information Officer
J Nguli	- Group Head of Human Resources
B Otieno	- Group Head of Risk
C Wambua	- Head of Micro Insurance & Agribusiness
J Tonui	- Head of Corporate Communications
J Bogonko	- Head of Customer Service
J Awidhi	- Head of Claims and Legal
A Njoki	- Reinsurance Manager

REGISTERED OFFICE

Apollo Centre, 07 Ring Road Parklands, Westlands
P O Box 30065-00100
Nairobi

PRINCIPAL BANKERS

Commercial Bank of Africa Limited
P O Box 30437-00100
Nairobi

Standard Chartered Bank Kenya Limited
P O Box 30001-00100
Nairobi

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way/ Chiromo Road,
Westlands
P.O. Box 43963 – 00100
Nairobi

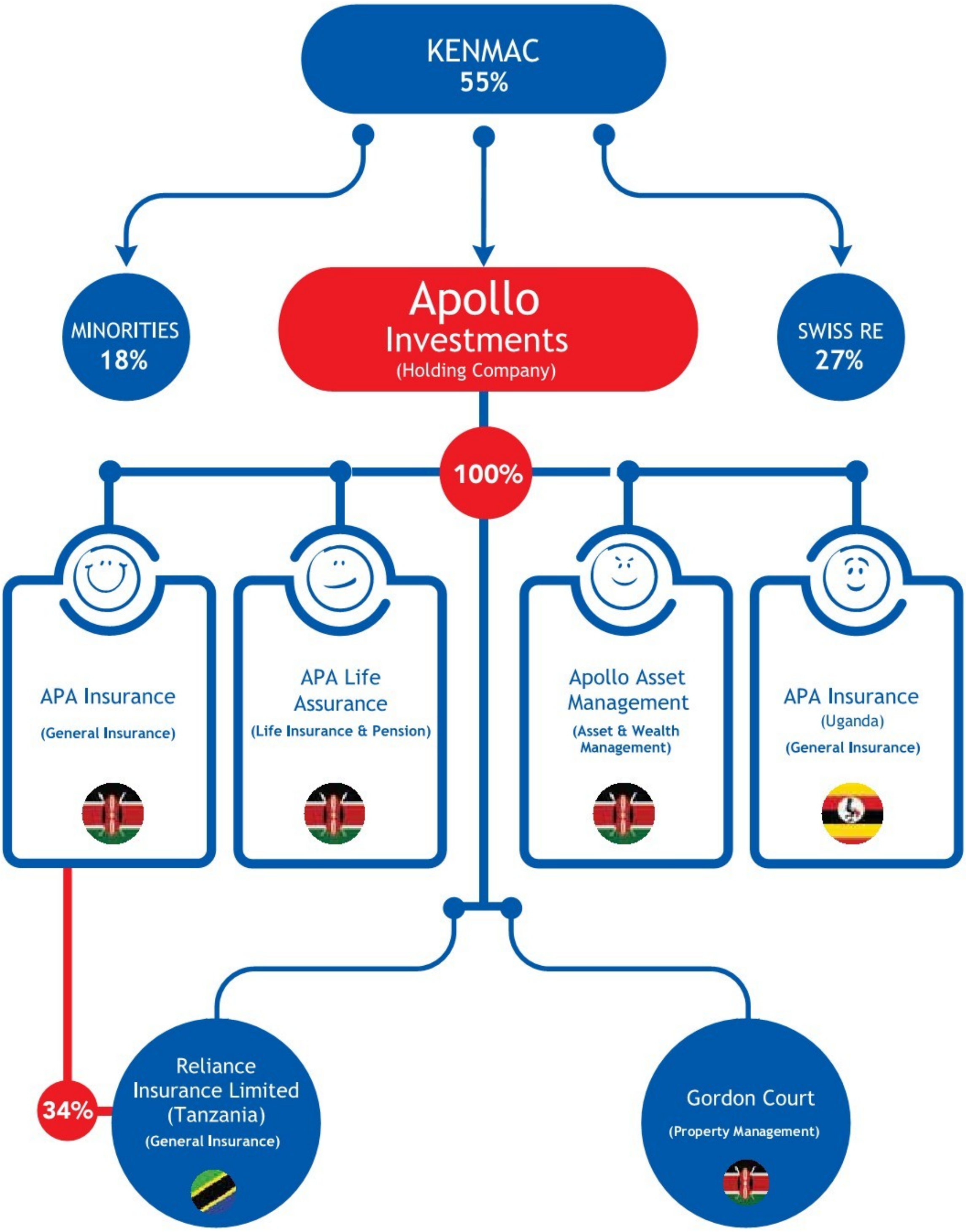
APPOINTED ACTUARY

Zamara Actuaries, Administrators & Consultants Limited
Landmark Plaza, Argwings Kodhek Road
P O Box 52439 – 00200 Nairobi

HEAD OFFICE

Apollo Centre, 07 Ring Road Parklands, Westlands
P O Box 30065-00100 Nairobi
Tel: +254 (0) 20 2862000

GROUP STRUCTURE



BOARD OF DIRECTORS - READY TO LEAD

John Piper
Swiss Re
Board Observer

Ashok Shah
Director

Daniel Ndonye
Chairman

Pratul Shah
Company Secretary

BOARD OF DIRECTORS *(CONTINUED)*

Piyush Shah
Director

Mary M'Mukindia
Director

Shashikant Shah
Director

Reto Schnarwiler
Director

MANAGEMENT TEAM

VINOD BHARATAN
Chief Executive Officer

John Kigochi
Chief Finance Officer

Parul Khimasia
Chief Operating Officer

Caroline Kamau
Director of Business Development

Amos Mabuka
Director of Business Development

Shalini Goswami
Head of Health Claims

Manju Naul
Director of Operations

Lucy Kuria
Head of Care Team

Sheila Gichuhi
Head of Health Business Development

Ann Njoki
Reinsurance Manager

MANAGEMENT TEAM *(CONTINUED)*

Keval Shah
Group Chief
Finance Officer

Juliana Nguli
Group Head of
Human Resource

James Nyakomitta
Group Chief Information
Officer

Chris Ngala
Group Head of Audit

Benjamin Otieno
Group Head of Risk

Judith Bogonko
Group Head
of Customer Service

Jackie Tonui
Group Head of
Corporate Communications

Charles Wambua
Head of Microinsurance
& Agribusiness

Janette Awidhi
Head of Claims
& Legal

INSURING
HAPPINESS

CHAIRMAN'S STATEMENT

'The company's premium income registered a strong performance in the year under review increasing to Shs 9.559 billion from Shs 8.303 billion in 2017, an impressive 15% growth in a near flat market recorded in the year'.

It is my great pleasure to present the 2018 annual report and financial statements for APA Insurance Limited. May I acknowledge the trust and confidence bestowed upon me by the board of directors

ECONOMY & BUSINESS ENVIRONMENT OVERVIEW

A rebound in agriculture and a return to political stability have helped strengthen the momentum of Kenya's economy in 2018, with the rollout of large infrastructure projects expected to see this growth continue in the medium term. The International Monetary Fund (IMF) forecasts gross domestic product (GDP) will expand by 5.7% in 2018, an increase on the 4.9% growth recorded in 2017. The fund's forecast was supported by data from the Kenya National Bureau of Statistics (KNBS), which showed that GDP had expanded by 6.3% (y-o-y) in the first three quarters of 2018.

A continuation of favourable weather conditions characterized by heavy downpours, has been a boon for agricultural and hydroelectric activities. Healthy diaspora remittance inflows and a marked increase in tourism earnings against a strengthening shilling also drove the strong outturn and helped to narrow the current account deficit by nearly a quarter compared to the same period in 2017.

Growth is expected to remain strong in 2019, thanks to solid domestic demand. Private consumption should continue to expand at a healthy pace, buoyed by solid remittance inflows and a tight labour market, while upbeat business confidence should continue to support strong fixed investment growth.

The continuation of the interest rate cap on commercial bank lending rates will likely curb the availability of credit, and lead to tougher conversations with multi-lateral agencies like the IMF.

In addition to more favourable climatic conditions, the KNBS cited improved political stability as a factor supporting growth in 2018. This stability also helped the local currency maintain its position against the dollar, with the shilling trading at 101.81 to the US dollar as of 31st December 2018. Having opened 2018 at 103.29 to the dollar, the shilling managed to avoid the volatility that beset many currencies in developing countries during the past year.

The local unit gained 1.4% against the USD in 2018, becoming the only African currency to appreciate against the Greenback. The KES is projected to continue its stability in the short term. With regard to stock market performance, NASI index was down by -18% during 2018. This loss was largely led by large-cap stock prices declining from the second quarter as a result of global sell-offs by foreign investors exiting emerging markets.

Foreign investor outflows increased in 2018 to USD 425.6 mn, compared to USD 113.7 mn in 2017. This was reflected in a general trend where international investors exited emerging markets as interest rates went up in the US coupled with the strengthening of the US Dollar.

FINANCIAL PERFORMANCE

The Company's premium income registered a strong performance in the year under review increasing to Shs 9.559 billion from Shs 8.303 billion in 2017, an impressive 15% growth in a near flat market recorded in the year. Our thrust is modelled on growth with profitability as that is the only sustainable business practice while aiming to achieve customer obsession in all our activities. This will ultimately become a competitive advantage in our congested market place barring any consolidations that may result from the June 2020 Risk Based Capital implementation.

The profit before taxation for the year is Shs 676 million from Shs 792 million in 2017, a 15% decrease attributed to the unrealised loss on revaluation of financial assets at Fair Value Through Profit and Loss (FVTPL) of Shs 161 million. Hitherto, the fair value adjustments were accounted under other comprehensive income. Despite this drop in profitability, the capital adequacy ratio significantly improved to 212% from an adjusted 180% in 2017, which is one of the highest in this market. The board has considered the healthy retained profits and the need to maintain optimal capital adequacy ratios and recommends a dividend of Shs 600 million (2017: Shs 1,500 million), a clear testament of the confidence and positive outlook in your Company.

CHAIRMAN'S STATEMENT *(CONTINUED)*

INSURANCE SECTOR REGULATORY CHANGES

During the year under review, there was a sigh of relief when Insurance Amendments Bill 2018 was published as it proposed, amongst others, to cure the issue of outstanding premiums that have fraught the insurance sector over the years. The proposal was to have premiums paid directly to the underwriters before commencement of an insurance policy.

As it were, this proposal elicited maximum attention from the intermediaries and Parliament has debated a compromise to allow intermediaries a 30 day's grace period for the bill imposes stringent penalties where an intermediary doesn't remit the premiums as stipulated. We expect that once the bill is assented, the industry will reap some fruits from earlier premium payments as well as release of the credit risk capital charges imposed under the risk based capital models.

The Finance Bill 2018 when published brought in an amendment to subject premiums (except on aircraft) paid to a non-resident person to withholding tax. This seems to be a reintroduction of the hitherto reinsurance levy that was abolished some years back with the aim to spur industry growth and bolster the near constant penetration levels. We have taken up the matter with the policy makers and association so that this issue can be reviewed to avert any negative impact emanating from passing the tax to the final insurance consumers.

AWARDS AND RECOGNITION

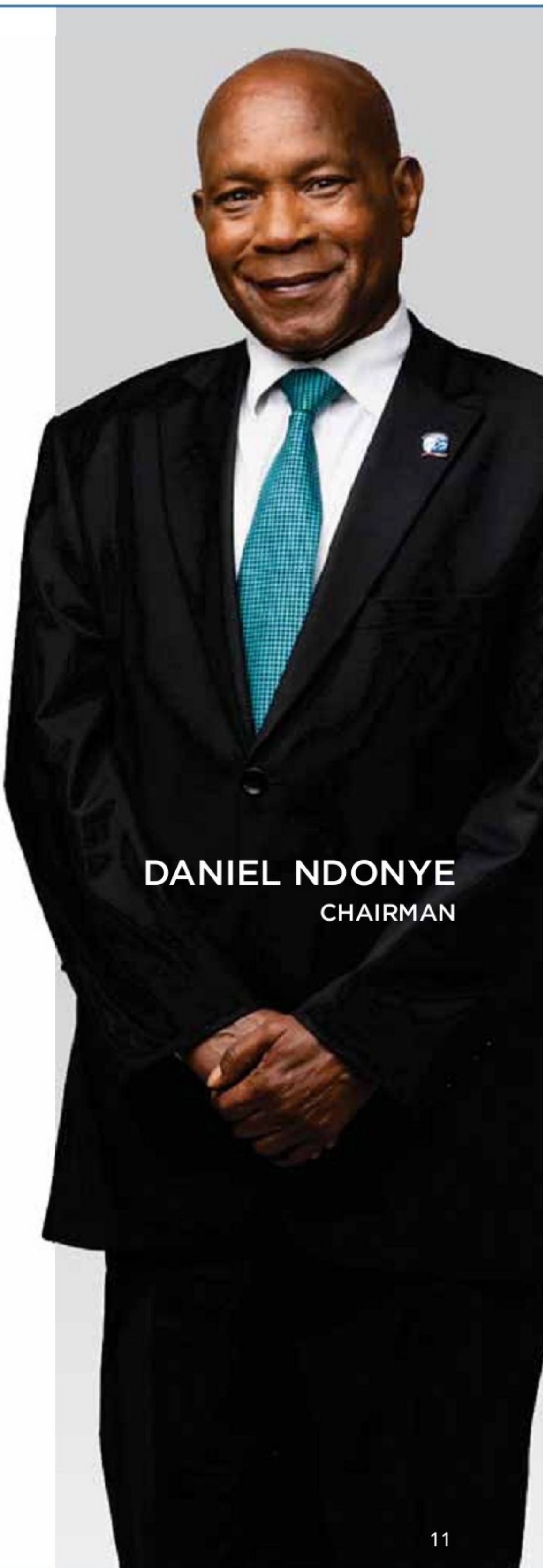
During the year, the Company received various awards and accolades, thanks to the unwavering support of our clients and business partners. Some of the awards were:

- Winner – best in marketing with our 'insuring happiness' campaign
- Winner – best in customer satisfaction in medical
- Winner - fraud detection and protection
- 1st runners up on customer service
- 2nd runners up on corporate social responsibility
- 2nd runners up on claims settlement

These awards which are wide ranging is a clear testimony of the commitment by our staff and I congratulate the team as they deliver on our mission of putting smiles on the faces of stakeholders. Every day, with these accolades in mind, the bar is raised and the team has to work tirelessly to live up to their expectations.

DIGITAL TRANSFORMATION – ''APOLLO NIRVANA''

The role technology plays in meeting customers' changing wants and needs across generations is critical. The core of being successful in innovation is being successful in technology. It's really about listening to the customer and adapting that technology to meet their needs seamlessly and at their fingertips. With this in mind, we recently conducted a digital audit across the group and found areas of opportunity to digitize our customer journeys and processes. This audit has given rise to Apollo Nirvana- our new digital strategy. Nirvana aims to propel us in the next three years to become a digital leader in the market. The overarching vision for Nirvana is "Insuring happiness with seamless protection for all customers, at their fingertips".



CHAIRMAN'S STATEMENT *(CONTINUED)*

DIGITAL TRANSFORMATION – "APOLLO NIRVANA" (CONTINUED)

Some of the activities of the project will include:

- Web and application platforms for our customers and intermediaries that can be used to purchase and service multiple insurance products
- High automation of our core processes (on-boarding, claims and servicing across general, life and health), reducing paperwork and hence processing times
- Use of data to drive business value through better customer experience, one stop shop, more proactive handling of customers issues, better service and management of claims amongst others

Indeed, the board and management are excited about this phase of business transformation and look forward into the future with much enthusiasm and optimism.

REGIONAL PRESENCE

The Apollo Group has operations in Kenya, Uganda and Tanzania with an elaborate branch network for prompt service delivery, truly making the Group an East African focused player. APA footprint in Kenya stands at 30 and still growing in line with our business plans, digital transformation and the rejuvenated profit centre concept. Group synergies continue to be harnessed in order to enlarge the pie and ensure optimal returns to each entity and group.

In Tanzania, our associate company, Reliance Insurance Company (Tanzania) Limited where we are the largest single shareholder was equally affected by heavy competition and deteriorating industry underwriting practices. The Company recorded a marginal 2.4% premium income increase to Kenya shillings 899 million and has a total asset base of Kenya shillings 2.05 billion. The management team of the Company has been strengthened and intermediary relationships revamped and this is expected to quickly improve the Company's fortunes.

CHANGES TO THE BOARD

In August 2018, Mr. James Gitoho resigned as a director and Chairman of the Company. Mr. Gitoho is a founding director of the Company and has immensely contributed to it's growth and development. The board appreciates and acknowledges the invaluable contribution by Mr. Gitoho as director since the formation of APA in 2003 and chairman of the board since 2014 and wishes him well in all his future endeavours.

The board has nominated Ms Mary Kimotho M'Mukindia, ACC, MBS as a director of the Company subject to the necessary regulatory approvals. Mary is a renowned corporate leader and Executive Leadership Coach with over 35 years of a dynamic career both in public and private sectors. This appointment is expected to bring in new diversity and energy to the group. On behalf of the board, I warmly welcome Mary to the board and look forward to her contribution and advice.

OUTLOOK

The positive performance of 2018 and political stability is expected to continue in the near future, with the IMF predicting growth of 6.1% in 2019 as the government continues with the rollout of major infrastructure projects. The country's ambitious "Big Four" agenda, which focuses on increasing investment in affordable housing, manufacturing, food security and universal healthcare, is expected to gain momentum in 2019 following the implementation of a series of pilot programmes. This will continue to spur growth in the economy. However, the major risk is underpinned on bloated national debt and massive leakages through rampant corruption. There is, however, renewed energy in the fight against corruption and the government should not relent until this vice is eradicated and ensure punitive measures are executed on anyone perpetuating the same regardless of their status in the society.

APPRECIATION

On behalf of the Board, I wish to express our deep gratitude to our clients, insurance intermediaries, reinsurers, business partners, suppliers, service providers, shareholders and the regulatory authorities for the business and support throughout the year.

I recognise and appreciate the management and staff of the Company for the loyalty, dedication and hard work that has made these results possible.

Finally, to my fellow directors, thank you for your commitment, support and considered advice that is so essential in this extremely competitive and specialised industry.

DANIEL M. NDONYE
CHAIRMAN

12 MARCH 2019


MY HOME IS MORE THAN JUST A PLACE - IT'S WHERE ALL MY HAPPINESS IS.
It has been my dream to own a house for the longest time. Today, I am a proud home owner. I have a place I can raise my family and somewhere they can call home for years to come. I wouldn't want anything bad to happen to my house and everything in it. This led me to take an APA Domestic cover to keep my house and household goods insured. Thank you APA for putting a smile on my face and insuring my happiness.
APA, Domestic Package

CHIEF EXECUTIVE OFFICER'S STATEMENT

'There has been all round improvement in the Company's performance as far as the top line growth is concerned'.

'I am delighted to present the CEO's report for APA Insurance Limited for the year ended 31st December 2018'.

INSURANCE INDUSTRY

After the turbulence of 2017 elections during which the economy had predictably slowed down, it was widely expected that 2018 would be a year of revival and growth. Unfortunately for the insurance industry, in particular, 2018 turned out to be worse than 2017. Between 2013 & 2016 the industry had registered a compounded annual growth rate (CAGR) of 10% and in 2017 this came down to 2% and in 2018 this went up to 3.5% much below what was forecast. The challenges faced by the industry in the past like low insurance penetration, high risk and high incidence of fraud, the high cost of business procurement, escalating court judgments in third party claims were carried forward to 2018 and were exacerbated further by the unabated undercutting of rates beyond sustainable levels. In 2017 the collective industry underwriting loss exceeded Kshs1 billion. As at June 2018, the Industry registered a collective underwriting loss of Kshs 2.66 billion up from Kshs 879.13 million during the same period 2017 which is both unprecedented and unsustainable.

We are happy that the regulator will be proactive in holding errant players to account, bringing about discipline in the way business is conducted, and inspiring confidence in the market. It is heartening to note that the insurance regulator has taken certain measures which will have a far reaching and positive impact on the market when they are implemented fully.

The current economic environment in the country has many challenges, while there are some opportunities for growth. This will have a direct impact on insurance companies which are set to benefit from development in new sectors such as oil and gas, road expansion programmes and power generation projects. At APA, we are excited about these developments and are positioning ourselves to take advantage of these opportunities as they arise.

APA Insurance is committed to matching the highest international standards of product and service delivery and believes that the quality of our people and the focus on meeting the needs of our customers will enable the Company to outperform competition.

A continuation of favourable weather conditions characterized by heavy downpours has been a boom for agricultural and hydroelectric activities. Healthy diaspora remittance inflows and a marked increase in tourism earnings against a strengthening shilling also drove the strong outturn and helped to narrow the current account deficit by nearly a quarter compared to the same period last year.

Economic growth is expected to remain strong in 2019, thanks to solid domestic demand. Private consumption should continue to expand at a healthy pace, buoyed by solid remittances inflows and a tight labour market, while upbeat business confidence should continue to support strong fixed investment growth. However, the liquidity crunch is expected to continue and be a dampener on higher growth unless the government ups its spending or the interest rate is modified. For the past two years the economy has taken a big hit because of the liquidity crunch.

COMPANY'S PERFORMANCE

The Company has done reasonably well given the challenging scenario in which we had to operate. Against a budgeted growth rate of 17%, we grew by 15% registering a gross premium income of Kshs 9.5 billion as compared to a gross premium of Kshs 8.3 billion completed the previous year.

Other highlights are:

- Underwriting profit of Kshs 10.6 million
- Net Investment income of Kshs 841 million
- Profit before tax of Kshs 677 million
- Shareholders' funds Kshs 4.903 billion
- Return on Equity of 9.4%

There has been all round improvement in the Company's performance as far as the top line growth is concerned. Our branches which underperformed in 2017, registered a healthy 20% growth in premium over the previous year. Our medical business which grew from Kshs 3.390 billion in 2017 to Kshs 4.03billion in 2018 surpassed the budget of Kshs 3.6 billion clocking a growth of 19% over the previous year. The general business grew at a more sedate pace of 12% to Kshs 5.52 billion as against Kshs 4.91 billion in 2017.

With better and more effective claims management, we have been able to control our loss ratios in the face of declining premium rates in 2018. Our overall loss ratio improved marginally to 66% from 67% the previous year while the medical loss ratio declined to 77% from 79% over the same period.

CHIEF EXECUTIVE OFFICER'S STATEMENT *(CONTINUED)*

COMPANY'S PERFORMANCE (CONTINUED)

The regulator had initially proposed that risk based capital be fully implemented by 30 June 2018, but this was subsequently deferred to 2020. I am happy to report that APA had attained the milestone of 200% Capital Adequacy Ratio (CAR) in 2018.

In 2018, the Company launched a successful brand campaign titled 'Insuring Happiness'. The campaign launch coincided with the International Day of Happiness which is a day dedicated to inspiring action for a happier world. The campaign ads were centred on the belief that "Insurance is about people, not things" and sought to build an emotional connection by focusing on what matters most to people. This portrays APA as a happy brand that customers would be glad to associate with. This created a positive essence that we will continue to leverage to drive higher growth of our retail portfolio, where we see potential growth for our business.

To this end, we have come up with products focusing on individual and family cover, cross-selling combined solutions for life and general and targeting medium-size businesses. We have come up with a package policy for schools to take advantage of the government directive that all schools should be insured. We have been strictly monitoring adherence to the customer charter which was unveiled in 2016. To enhance the customer experience, we have partially implemented a contact centre which is expected to be fully operational by 2019.

In 2018, we also amplified our efforts to build and maintain our client relationships by holding various client appreciation events across the country.

MICRO & AGRIBUSINESS

APA continues to play an important role in the development of a strong agricultural insurance market in Kenya and in 2018, we implemented the Kenya Agriculture Insurance Program (KAIP) in 20 counties in partnership with the Government of Kenya. Microinsurance and agricultural insurance are significant elements of APA's business, and the Company currently covers one million Kenyans through these products. The Company booked premium of Kshs 196 million under Micro & Agriculture during the year 2018 (Agriculture Kshs 156 million and Micro Kshs 40 million) for 700,000 low-income households through its non-agriculture micro insurance products and around 320,000 people through its agriculture and livestock insurance products. We also settled the largest claims under agriculture insurance for Kshs 67.65 million during 2018 which has helped gain trust within the farming community and has opened the same market up to other forms of insurance.

TECHNOLOGICAL AND DIGITAL TRANSFORMATION

The role technology plays in meeting customers' changing wants and needs across generations is critical. The core of being successful in innovation is being successful in technology. It's really about listening to the customer and adapting that technology to their needs. We need to listen to the voice of the customer to be successful. We recently conducted a digital audit across the Group and found areas of opportunity to digitize our customer journeys and processes. This audit has given rise to Apollo Nirvana- our new digital strategy. Nirvana aims to propel us in just three years to become a digital leader in the market. The overarching vision for Nirvana is "Insuring happiness with seamless protection for all customers, at their fingertips". Some of the activities of the project will include:

VINOD BHARATAN
CEO

CHIEF EXECUTIVE OFFICER'S STATEMENT *(CONTINUED)*

TECHNOLOGICAL AND DIGITAL TRANSFORMATION (CONTINUED)

- Web and app platforms for our customers and brokers that can be used to purchase and service multiple insurance products.
- Automation of our core processes (on boarding, claims and servicing across general, life and health), eliminating paper and reducing processing times.
- Use of our data to drive business value (for example through better cross-selling, more proactive retention of our customers, better management of claims cost)
- Innovative disruptions to increase our market share

APA participated in the 2018 Annual Think Business Insurance Awards whose objective is to encourage innovation and excellence in the Insurance sector by recognizing, awarding and celebrating exemplary performers and successes of the sector.

RECOGNITION AND AWARDS

APA won six awards, scooping three overall winners' positions, two 1st runners up positions and one 2nd runner up position. We took the overall winner awards in three main categories including Fraud Detection and Prevention, Best in product Distribution and Marketing and Best in Customer Satisfaction (Medical). We also received 1st runner up in Customer Service and in Claim Settlement (General) and 2nd runners up in Corporate Social Responsibility.

In a service industry like ours, a company is as good as its people. We at APA firmly adhere to this philosophy and to this end our Company makes a considerable investment every year on training and development of our staff. Training is conducted through our APA academy, external facilitators and the Swiss Re e-portal.

APA was also recognized by the Association of Kenya Insurers (AKI) during the annual sports day in September which saw us retain our number 1 overall position for the 6th consecutive year. This shows our commitment to the health and wellness of our staff is bearing fruit.

CORPORATE SOCIAL RESPONSIBILITY

At APA we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by existing policy and we commit to a substantial budgetary allocation each year to CSR initiatives. Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

CHALLENGES AND OUTLOOK

There is no respite from the challenges facing the industry. In fact, they have become more acute with the passage of time. The two critical issues are, the undercutting of rates and outstanding premium. The cash crunch in the economy over the past two years has contributed to the problem of outstanding premium which currently stands at approximately 25% of total premium booked last year, for the industry as a whole. Our outstanding debt has come down to 19% of total business booked as compared to 29.8% at the end of 2017. This has been achieved due to a combination of greater efficiency brought about by the new system, implemented in May 2017 and a more focused and determined approach to collection which was demonstrated across the Company, from the branches to head office.

However, if things do not improve on the collection and underwriting front for the industry, some companies are likely to struggle to keep their heads above water this year. Faced with the menace of undercutting, there is an increasing chorus of voices from the industry asking for the restoration of the 'Listed Risks' tariff in fire and engineering which was dismantled two years ago.

We now put our hopes on the full implementation of Risk Based Capital (RBC) requirement, which was initially supposed to be rolled out in 2018 but was later on deferred to 2020. At APA we welcome this measure and look forward to it keenly since this will not only bring to an end the reckless undercutting of rates but also lead to mergers of weak companies with financially strong ones.

Additionally, the implementation of IFRS 17 on insurance contracts with effect from 1st January 2021 with its far reaching implications, will completely alter the way we conduct our business.

APPRECIATION

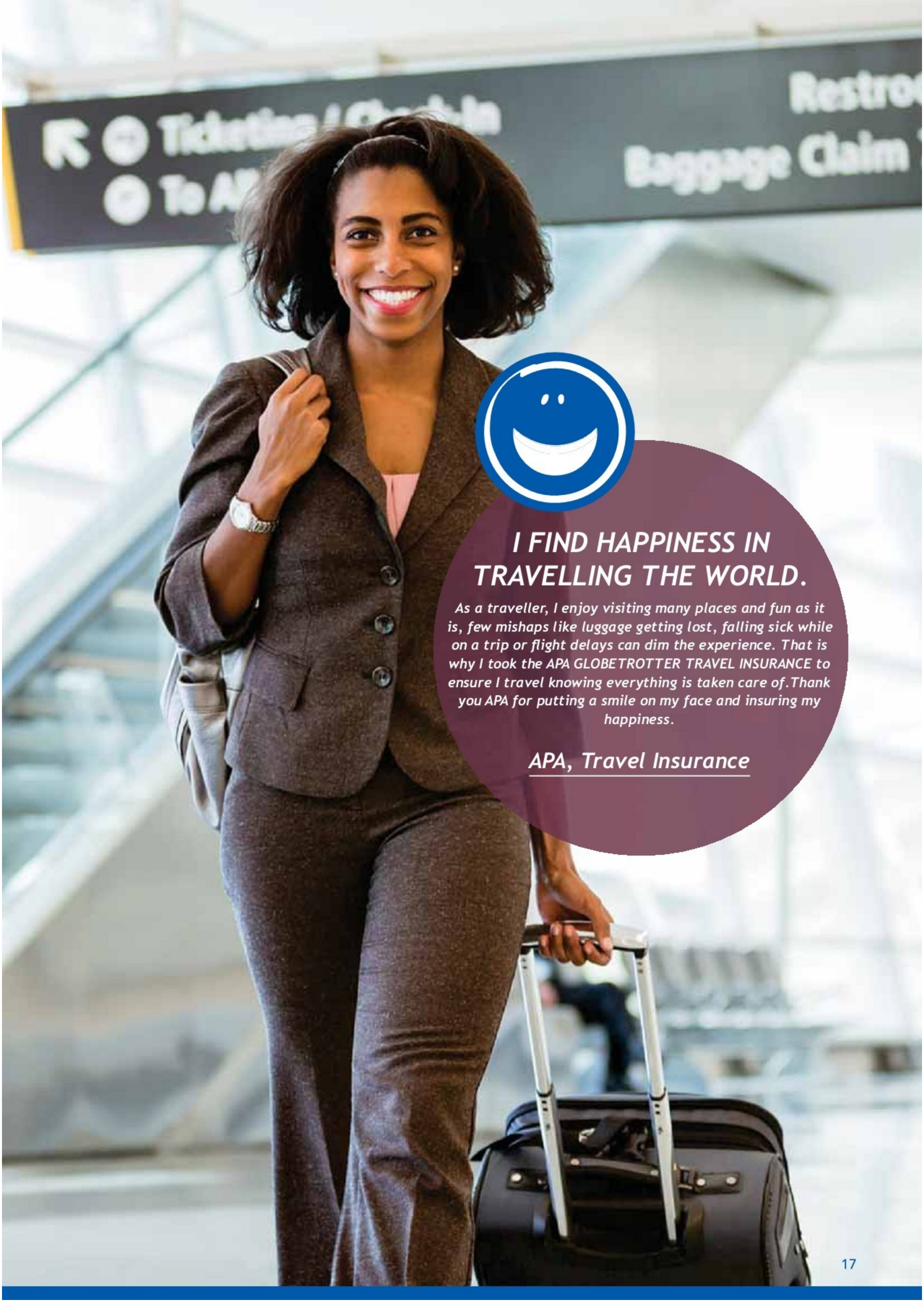
The contributions of APA's various stakeholders have ensured that continued strong performance is achieved. These are none other than our business partners, intermediaries and customers. I would like to thank you for your continued support and loyalty, which has been instrumental in reinforcing APA's position as the financial services provider to reckon with in the Kenyan insurance market.

I also thank all our staff across the country who continue to show dedication and provide superior service to our customers. I would also like to acknowledge with appreciation, my colleagues in the management and the Board directors for their diligence, guidance and support that has ensured that we achieved superior and excellent results during the year.

VINOD BHARATAN

CHIEF EXECUTIVE OFFICER

12 MARCH 2019

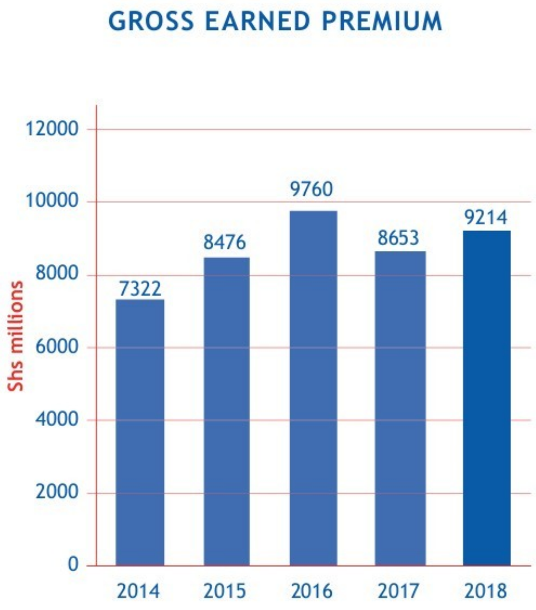


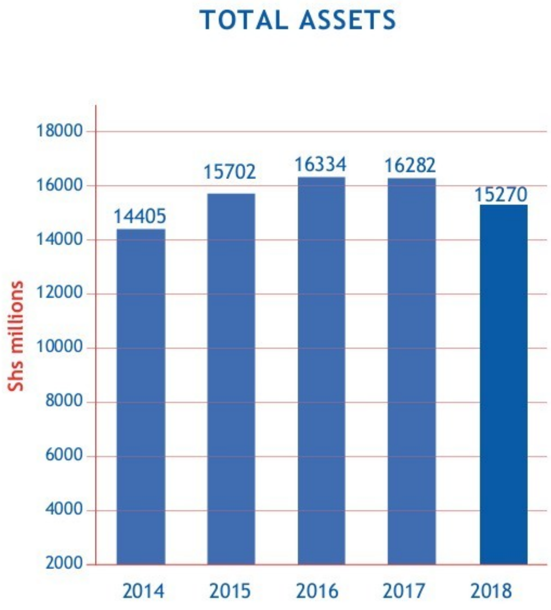
I FIND HAPPINESS IN TRAVELLING THE WORLD.

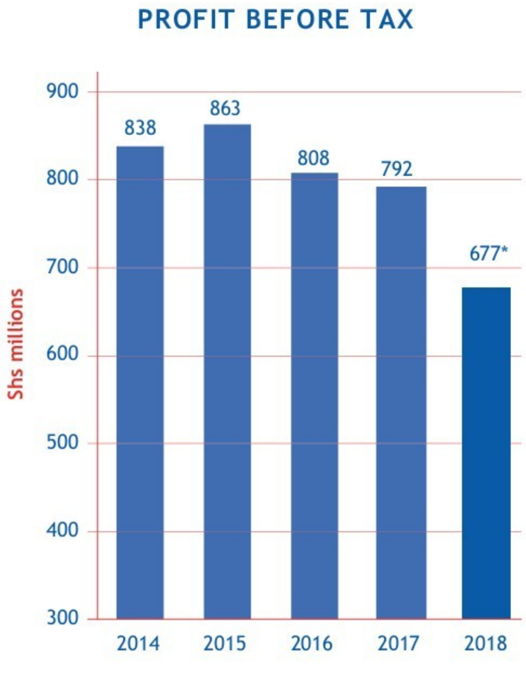
As a traveller, I enjoy visiting many places and fun as it is, few mishaps like luggage getting lost, falling sick while on a trip or flight delays can dim the experience. That is why I took the APA GLOBETROTTER TRAVEL INSURANCE to ensure I travel knowing everything is taken care of.Thank you APA for putting a smile on my face and insuring my happiness.

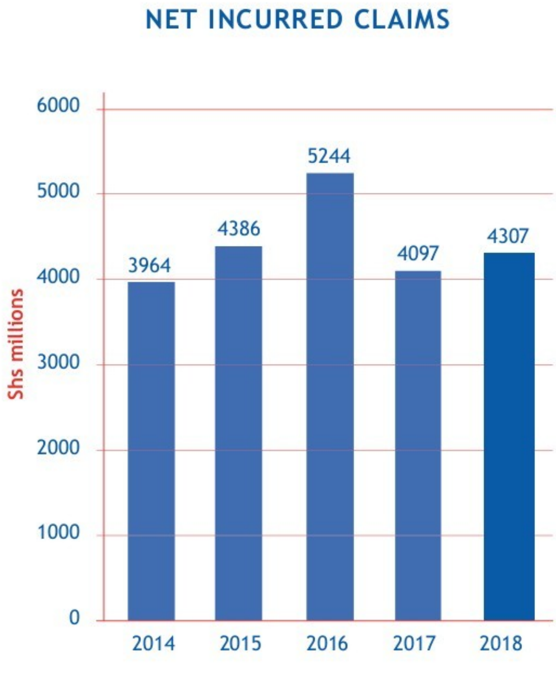
APA, Travel Insurance

FINANCIAL HIGHLIGHTS









* After fair value loss adjustment of Shs 161Mn


MY HAPPINESS
IS GETTING MY
CUSTOMERS' GOODS TO
THEM IN ONE PIECE.
As a business person, it brings me joy knowing my goods are in safe hands even when on the high seas and that they will get to the dock in good condition. Working with a local insurance partner has benefitted not only my business but my customers' relations as I am always able to keep them happy at all times. This has all been made possible thanks to the APA MARINE INSURANCE cover.
APA, Marine Insurance

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The Board of APA Insurance Limited follows principles of openness, integrity and accountability in its stewardship of the Company's affairs. It recognises the developing nature of corporate governance and assesses the Company's compliance with generally accepted corporate governance practice on a regular basis, directly and through its Board committees and Management. The role of the Board is to ensure conformance by focusing on and providing the Company overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The Board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to both safeguard the Company's assets and ensure the reliability of financial information.

A senior management team, comprising executive directors, divisional directors and senior managers meets regularly to consider issues of operational and strategic importance to the Company.

Below are the key features of the existing corporate governance practices within the Company which are reviewed and improved on a regular basis:

1. BOARD OF DIRECTORS

The Board of Directors consists of seven directors out of whom three are independent non-executive directors. The Chairman of the Board is a non-executive director and the Board meets formally at least four times a year.

The Board is responsible for setting the direction of the Company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgement on Board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the Company Secretary and are entitled to obtain independent professional advice on the Company's affairs.

The Board meets regularly and retains full and effective control over the Company in all strategic, financial, operational and compliance areas. In 2018, five board meetings were held and the attendance by the directors was as follows:

Director	Total board meetings in the year that the director was eligible to attend	Number of board meetings attended
D M Ndonye – Chairman	5	5
J N Gitoho – (Resigned on 23 August 2018)	3	3
A K M Shah	5	5
S M Shah	5	5
R Schnarwiler	5	5
R M Ashley	5	5
P Shah	5	5

To assist the Board in the discharge of its responsibilities, Board committees have been established. All the Board committees meet at least four times a year. The committees are as follows: -

(a) Audit and Risk Committee

The audit and risk committee comprises four non-executive directors and the executive director. The committee is responsible for, inter alia, developing and advising on audit and financial controls and compliance issues of the Company. It also defines the scope of the internal audit function and acts as a liaison between the external auditors and management. The current members of the committee are R Schnarwiler (Chairman), P Shah, R M Ashley, D M Ndonye and A K M Shah.

CORPORATE GOVERNANCE STATEMENT *(CONTINUED)*

1. BOARD OF DIRECTORS (CONTINUED)

(b) Information and Communication Technology (ICT) Committee

The ICT committee comprises one non-executive director, the professional nominated under shareholder's agreement and the executive director. The committee provides guidance to the Board on ICT requirements for the Company, provides assurance that the ICT systems in place are able to generate accurate and timely management reports and also reviews ICT budgets and recommends for their adoption by the Board. The committee also ensures that there are business continuity plans in place for the Company. The current members of the committee are P H Shah (Chairman), P Shah and A K M Shah.

(c) Investment Committee

The Board has an investment committee comprising three non-executive directors, board advisor and the executive director. This committee is responsible for determining the Company's overall investment strategy and monitoring its implementation. The current members of the committee are R M Ashley (Chairman), D M Ndonye, S M Shah, P H Shah and A K M Shah.

(d) Remuneration Committee

The remuneration committee currently consists of three non-executive directors and the Executive Director. Its primary objective is to ensure that the right calibre of management is recruited and retained and set guidelines for remuneration of staff. The non-executive directors on the committee are responsible for agreeing the terms of service in respect of the executive directors.

The committee is also responsible for ensuring that the terms and conditions of service for management and staff is fair, appropriate and reflect the market conditions. The current members of the committee are D M Ndonye (Chairman), R Schnarwiler, P J Shah and A K M Shah.

2. INTERNAL CONTROLS

The Company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the Company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through internal audit function, operational meetings and the annual external audit.

3. RELATED PARTY TRANSACTIONS AND DIRECTORS' REMUNERATION

The related parties' transactions with the group companies during the year ending, 31 December 2018 are detailed under note 35 of these annual report and financial statements.

The remuneration for non-executive directors consists of fees and sitting allowances for their services in connection with the Board and committee meetings. These fees and allowances are approved by the members at the annual general meetings.

The aggregate amount of directors' remuneration for services rendered during the year ending 31 December 2018 are contained under note 35 of these annual report and financial statements.

4. SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES

The Board is conscious of the Company's social and environmental responsibilities. Particular attention is given to projects with a long time positive impact to the society and environment. These include employees' welfare programmes, education and health activities, empowering the youth and provision of clean and safe drinking water. The Company encourages staff to participate and actively supports them in various causes.

5. GOING CONCERN

The directors confirm that the Company has adequate resources to continue in business for the foreseeable future and therefore the continued use of going concern as a basis of preparing the financial statements is appropriate.

DANIEL M. NDONYE	ASHOK SHAH
Chairman	Director

12 March 2019

CORPORATE SOCIAL RESPONSIBILITY

Ashok Shah - Apollo Group CEO during construction of a sand dam to support households.

> 'As an insurance company, we provide essential services to the community'

We play a role in connecting people with each other, with other communities and key community services. The operation of our services touches on all members of the community with the potential to positively impact on their quality of life. We also operate from a significant number of properties and have a responsibility to those living and working nearby as well as being a significant employer; directly employing 353 staff.

Our relationships with the local communities we serve are therefore very important to us and are an essential part of the growth of our business. When developing our products and services, we have a role to play in improving services for the community as a whole and not just our individual customers.

Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

The Group's corporate social responsibility programs focus on four key pillars:

1. Sustainable clean water supply to communities
2. Empowering the youth
3. Education and health activities
4. Environment conservation.

APA APOLLO FOUNDATION

APA Apollo Foundation, previously known as 'Amini Poa Maji Maisha,' is the umbrella trust that is funded by APA Apollo Group and contributes towards the construction of sand dams. The trust has been in existence since 2006 and has constructed 22 sand dams in arid and semi-arid areas of Kenya (Machakos, Makueni and Kajiado)

The strategic goal is to enhance food security for all in society by providing communities in semi-arid areas, accessibility to reliable water supply. This is achieved by the construction of sand dams on dry river beds to harness the water that only flows during rainy seasons. The water is retained in the sand that is deposited behind the dam. An artisan well with a hand pump is provided for easy access by the community. The natural filtration through the sand gives clean drinking water that is used both for agriculture and household.

CORPORATE SOCIAL RESPONSIBILITY *(CONTINUED)*

In 2018, the communities partnered with APA staff members and the Utooni Development Organization; a non-government organisation that specializes in the construction of sand dams and built the two dams that will support these households in the long term.

Vinod Bharatan - APA Insurance CEO and Audrey Anjiri (APA) during a tree planting exercise

These dams are located in Imarat, Kajiado and Ikalaasa, Machakos respectively. The Ikalaasa project was a special one as the Khimasia Family partnered with the foundation to fund and build the dam in celebration of their 100 year anniversary in Kenya.

Some of the key objectives that the projects have met include:

- Enhancing water and food security for the communities
- Increasing accessibility to clean water
- Increase in food supply
- Reducing commuting for long distance to fetch water for women and the children
- Ensuring that the community at large is able to participate in other income-generating activities as long hours spent in fetching water have been reduced.

YOUTH INITIATIVE PROGRAMMES APA / APOLLO BURSARY FUND

RYSA football team at a recent football match

The APA bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School and hailing from Githongoro slums in the outskirts of Runda. The bursary fund currently in its 13th year and has 12 students in the bursary program.

Cheleta School's overall performance has greatly improved since the bursary program was introduced with the average score rising to above 50%. This is due to competition amongst the pupils. The bursary caters for secondary education tuition and necessary personal effects.

RECREATION THROUGH SPORTS

APA promotes sporting activities by supporting the Runda Youth Sports Association (RYSA) football team. The sponsorship includes the fees for RYSA to participate in various leagues and provides the football kits, for logistics and team allowances.

The RYSA football team participates in the Nairobi County league which is under the Football Kenya Federation. Overall the team is in sixth place in a league of 13 teams. In addition, APA organizes tournaments for the team in order to boost and continue to nurture the soccer talents and positively engage the youth in Mji wa Huruma and Githongoro villages.

ENVIRONMENT CONSERVATION

APA team at the annual 'Run for Mau' marathon

Our commitment to protecting and conserving the environment is core to our business and it is our objective to plant and maintain at least 1,500 trees every year. In partnership with Egerton University, we have created the Ngongogeri Park and every year we plant 1500 seedlings with our staff and Egerton students. We are also key partners and sponsors in the annual Run for Mau marathon in which we have participated for 6 consecutive years.

Through the APA Apollo Foundation sand dam projects, we ask the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of ten trees is allocated for planting and maintenance to each household that benefits from the sand dam.

We have partnered with "Friends of Karura" and "Greenline Project" to plant trees in both the Karura forest and Nairobi National park in an effort to curb urban encroachment.

Environment conservation has also been embraced at the departmental level by the APA staff through the annual departmental CSR activities.


ALL MY HAPPINESS COMES FROM MY FARM.
Having grown up in a farming family, agriculture was my destiny. Like my father and grandfather before him I wanted to be successful. In today's world, success in this business is not only relying on good harvesting. One has to take care of the farm, the crops, the produce and anything that can happen to them. To stay safe and ahead, I took an APA Crop Insurance to insure my crops against loss or if my harvest didn't go as planned.Thank you APA for putting a smile on my face and insuring my happiness.
APA Agriculture Insurance


HAPPINESS
IS SECURING MY
SAFETY
Life is full of surprises. At times the unexpected can happen. I want to be financially prepared in the event of an accident and still be able to live freely. With the help of APA Personal Accident, I'm able to live happily knowing even in the event of an accident my insurance has my back. Thank you APA for putting a smile on my face and insuring my happiness.
APA Personal Accident

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors submit their report together with the audited financial for the year ended 31 December 2018, which disclose the state of affairs of APA Insurance Limited (the 'Company').

INCORPORATION

The Company is incorporated in Kenya under the Kenyan Companies Act as a private company limited by shares, and is domiciled in Kenya. The address and the registered office is set out in page 4.

The Company has investments in the following associated companies;

- Reliance Insurance Company (Tanzania) Limited, incorporated in Tanzania as a private company limited by shares and is domiciled in Tanzania
- Gordon Court Limited, incorporated in Kenya as a private company limited by shares and is domiciled in Kenya

BUSINESS REVIEW

The principal activity of the Company is the transaction of general insurance business.

The key risk that the Company faces is insurance risk which arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim.

SUMMARY RESULTS

	2018 Shs' 000	2017 Shs' 000
Gross earned premium	9,214,248	8,653,265
Profit for the year	510,849	659,764
Total comprehensive income attributable to shareholders	493,420	939,575
Return on equity (%)	9.4%	16.7%
Capital adequacy ratio – CAR (%)	212%	249%

DIVIDEND

Profit for the year of Shs 510,849,000 (2017: Shs 659,764,000) has been added to retained earnings.

The directors recommend the payment of Shs 600,000,000 dividend in respect of the year (2017: Shs 1,500,000,000).

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 4.

DISCLOSURE TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

SECRETARY

12 March 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2018

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for:

i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii) Selecting suitable accounting policies and then apply them consistently; and

iii) Making judgements and accounting estimates that are reasonable in the circumstances

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the board of directors on 12 March 2019 and signed on its behalf by:

DANIEL M. NDONYE	ASHOK SHAH
Chairman	Director

12 March 2019

zamara

REPORT OF THE CONSULTING ACTUARY TO THE SHAREHOLDERS OF APA INSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2018

I have conducted an actuarial valuation of the insurer's insurance liabilities as at 31 December 2018.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act, Cap. 487 of the Laws of Kenya. Those principles require that prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the insurer's insurance liabilities of the Company were adequate as at 31 December 2018.

Name of Actuary **James I. O. Olubayi**

Fellow of the Institute of Actuaries (FIA)

Signed **12 March 2019**

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA INSURANCE LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2018

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of APA Insurance Limited (the "Company") set out on pages 32 to 78 which comprise the statement of financial position at 31 December 2018 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of APA Insurance Limited at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Determination of insurance contract liabilities Outstanding claims provision included in note 27 of the financial statements is made up of reported claims and incurred but not reported ("IBNR") claims and was considered a matter of most significance to the current year audit for the following reasons: • The estimation of the provisions involves significant judgement given the inherent uncertainty in estimating expected future outflows in relation to claims incurred. • The valuation of these liabilities relies on the accuracy of claims data and the assumption that future claims development will follow a similar pattern to past claims development experience. • The magnitude of the insurance contract liabilities balance (Shs 6,492 million) in relation to total liabilities of (Shs 10,368 million).	Our testing approach included amongst others, the following procedures with the assistance of our actuarial specialists: • Evaluating and testing the controls around the claim reserving and settlement; • Evaluating managements' review process of the provisions; • Comparing for a sample of claims the amounts as recorded in the claims systems to source documents; • Reviewing the reconciliation between the claims data and that used to calculate the reserves; • Considering the methodology and assumptions used by the Appointed Actuary and management in the estimation of reserves and assessing the methodologies applied against general accepted actuarial approaches; and • Evaluating the ongoing validity of the assumptions by performing an actual versus expected analysis on prior year's reserves.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF APA INSURANCE LIMITED *(CONTINUED)*

FOR THE YEAR ENDED 31 DECEMBER 2018

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on financial instruments at amortised cost IFRS 9 was implemented by the Company on 1 January 2018. This new and complex standard requires the Company to recognise expected credit losses ("ECL") on financial instruments.	Our procedures included the following: • We evaluated and tested controls over the recording of premium debtors; • We tested the process management has applied in making the impairment provisions; • We validated the debtors staging and challenged management on the recoverability of overdue balances.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF APA INSURANCE LIMITED *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other matters prescribed by the Kenyan Companies Act, 2015

Report of the directors

In our opinion the information given in the report of the directors on page 26 is consistent with the financial statements.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi **29 March 2019**

CPA Bernice Kimacia, Practising certificate No. 1457.
Signing partner responsible for the independent audit

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 Shs'000	2017 Shs'000
Gross written premium		9,558,669	8,303,075
Gross earned premium	3	9,214,248	8,653,265
Less reinsurance premium ceded		(2,715,292)	(2,565,020)
Net earned premium		6,498,956	6,088,245
Investment income	4	837,343	1,061,006
Commissions earned		575,379	571,665
Other income	5	4,060	1,553
IFRS 9 Impairment movement		7,386	-
Total income		7,923,124	7,722,469
Net incurred claims	6	(4,307,012)	(4,097,310)
Operating and other expenses	7	(1,877,509)	(1,828,391)
Commissions payable		(1,079,514)	(1,030,576)
Profit from operating activities		659,089	766,192
Share of profits of associates	15(a)	17,602	26,066
Profit before income tax		676,691	792,258
Income tax expense	9(a)	(165,842)	(132,494)
Profit for the year		**510,849**	**659,764**
Other comprehensive income, net of tax:			
Items that may subsequently be reclassified to profit or loss			
Change in fair value of available for sale financial assets :			
- Unquoted equity investments	15(b)	(9,192)	-
- Quoted equity investments	16	-	169,563
- Government securities	21(b)	-	115,032
- Investment in unit trust		-	255
Share of other comprehensive income of associates	15(a)	449	(2,144)
Exchange differences on translation of foreign operations	15(a)	(9,119)	(3,160)
Deferred tax on other comprehensive income	30	433	265
Other comprehensive gain / (loss) for the year, net of tax		**(17,429)**	**279,811**
Total comprehensive income for the year attributable to the owners of the Company		**493,420**	**939,575**
		Shs	Shs
Earnings per share – basic and diluted	10	**40.87**	**52.78**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018	2017
ASSETS		**Shs'000**	**Shs'000**
Motor vehicles and equipment	12	82,953	98,466
Intangible assets	13	47,310	72,495
Investment properties	14	1,000,000	1,313,000
Investment in associates	15(a)	627,607	618,675
Equity investments - at fair value through other comprehensive income	15(b)	5,515	14,707
Equity investments – at fair value through profit or loss	16	1,076,106	1,182,295
Investments in unit trusts		27,687	25,516
Current income tax	9(c)	24,058	7,729
Deferred income tax	30	386,428	295,483
Loans receivable	17	108,340	131,006
Receivables arising out of reinsurance arrangements		553,731	569,111
Receivables arising out of direct insurance arrangements		717,274	1,100,096
Reinsurers' share of insurance liabilities and reserves	18	2,081,251	2,102,040
Deferred acquisition costs	19	172,748	139,203
Other receivables	20	110,494	64,979
Government securities – at amortised cost	21(a)	2,327,001	3,175,472
- at fair value through profit or loss	21(b)	3,441,373	4,156,858
Deposits with financial institutions	22	2,015,421	633,241
Commercial paper and corporate bonds	23	327,354	361,573
Cash and bank balances	32(b)	137,714	219,764
Total assets		**15,270,365**	**16,281,709**
EQUITY AND LIABILITIES			
Equity			
Share capital	24	1,250,000	1,250,000
Other reserves	25(a)	229,380	505,857
Translation reserve	25(b)	(40,189)	(31,070)
Retained earnings	26	2,863,396	2,777,803
Proposed dividends		600,000	1,500,000
Total equity		**4,902,587**	**6,002,590**
Liabilities			
Insurance contract liabilities	27(a)	6,492,192	6,654,070
Provision for unearned premium	28	3,439,624	3,095,204
Payables arising from reinsurance arrangements		12,332	97,647
Other payables	29	383,972	421,111
Bank overdraft	32(b)	39,658	11,087
Total liabilities		**10,367,778**	**10,279,119**
Total equity and liabilities		**15,270,365**	**16,281,709**

The financial statements on pages 32 to 78 were authorised for issue by the Board of Directors on 12 March 2019 and signed on its behalf by:

DANIEL M. NDONYE
Chairman

ASHOK SHAH
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

Year ended 31 December 2017	Share capital Shs'000	Available for sale reserve Shs'000	Translation reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
At 1 January 2017	**1,250,000**	**222,886**	**(27,910)**	**3,818,039**	**-**	**5,263,015**
Changes in equity 2017:						
Profit for the year	-	-	-	659,764	-	659,764
Other comprehensive income for the year	-	282,971	(3,160)	-	-	279,811
Transactions with owners:						
Dividends						
- 2016 final paid dividend	-	-	-	(200,000)	-	(200,000)
- Proposed final for 2017	-	-	-	(1,500,000)	1,500,000	-
At 31 December 2017	**1,250,000**	**505,857**	**(31,070)**	**2,777,803**	**1,500,000**	**6,002,590**
Year ended 31 December 2018						
At 1 January 2018						
as previously reported	**1,250,000**	**505,857**	**(31,070)**	**2,777,803**	**1,500,000**	**6,002,590**
Changes on initial application of IFRS 9						
- Expected credit losses	-	-	-	(133,462)	-	(133,462)
- Deferred tax on expected credit losses	-	-	-	40,039	-	40,039
- Reclassification from FVOCI to FVTPL	-	(268,167)	-	268,167	-	-
Restated balance as at 1 January 2018	**1,250,000**	**237,690**	**(31,070)**	**2,952,547**	**1,500,000**	**5,909,167**
Changes in equity 2018:						
Profit for the year	-	-	-	510,849	-	510,849
Other comprehensive income for the year		(8,310)	(9,119)	-	-	(17,429)
Transactions with owners:						
Dividends						
- 2017 final paid dividend	-	-	-	-	(1,500,000)	(1,500,000)
- Proposed final for 2018	-	-	-	(600,000)	600,000	-
At 31 December 2018	**1,250,000**	**229,380**	**(40,189)**	**2,863,396**	**600,000**	**4,902,587**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 Shs '000	2017 Shs '000
Cash flows from operating activities			
Cash generated from operations	32(a)	275,933	(76,154)
Interest received		816,415	799,516
Income tax paid	9(c) &30	(232,645)	(199,344)
Net cash generated from operating activities		859,703	524,018
Cash flows from investing activities			
Purchase of property and equipment	12	(14,461)	(25,567)
Proceeds from sale of property and equipment		1,000	1,488
Purchase of intangible assets	13	(2,618)	(60,617)
Proceeds from sale of investment properties	14	342,747	-
Purchase of quoted shares	16	(204,906)	(76,933)
Proceeds from sale of quoted shares		138,511	606,395
Investment in unit trusts		-	(25,000)
Loans advanced	17	(10,862)	(56,348)
Loan repayments received	17	33,260	32,221
Net maturity/purchase of government securities		1,543,242	(744,504)
Net investment/maturity of deposits maturing after 90 days		(1,765,105)	59,060
Net redemption/purchase of commercial bonds	23	31,831	(69,810)
Net cash used in investing activities		92,639	(359,615)
Cash flows from financing activities			
Dividends paid	11	(1,500,000)	(200,000)
Net cash used in financing activities		(1,500,000)	(200,000)
Net (decrease) in cash and cash equivalents		(547,658)	(35,597)
Movement in cash and cash equivalents			
At 1 January	32(b)	1,146,962	1,182,559
(Decrease)		(547,658)	(35,597)
At 31 December	32(b)	599,304	1,146,962

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1 General information

APA Insurance Limited (“the Company”) is in the business of general insurance and is incorporated in Kenya under the Companies Act as a private limited liability company. The Company is domiciled in Kenya and the address of its registered office is disclosed under page 4.

For the Kenyan Companies Act reporting purposes, the balance sheet is presented by statement of financial position and the profit and loss account is presented by the statement of comprehensive income.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The measurement basis applied is the historical cost basis, except for investment property and certain financial assets which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 2(u).

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018.

IFRS 9 - Financial Instruments

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any provisions of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. As a result, the comparative information provided continues to be accounted for in accordance with the Company’s previous accounting policy.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments as IFRS 7 ‘Financial Instruments: Disclosures’.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Company (continued)

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and the new measurement categories under IFRS 9 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement Category**	**Carrying amount (Shs 000')**	**Measurement Category**	**Carrying amount (Shs 000')**
Equity investments - FVOCI	FVOCI	14,707	FVOCI	14,707
Equity investments FVTPL	FVOCI	1,182,295	FVTPL	1,182,295
Investments in Unit trusts	FVOCI	25,516	FVTPL	25,516
Loans receivables	Loans and receivables	131,006	Amortised costs	130,682
Receivables out of direct insurance arrangements	Loans and receivables	1,100,096	Amortised costs	990,522
Other receivables	Loans and receivables	64,979	Amortised costs	52,208
Government Securities – At amortised costs	Amortised costs	3,175,472	Amortised costs	3,172,297
Government Securities – at FVTPL	FVOCI	4,156,858	FVTPL	4,156,858
Deposits with financial institutions	Amortised costs	633,241	Amortised costs	629,438
Commercial paper and Corporate bonds	Amortised costs	361,573	Amortised costs	358,995
Cash and Bank	Amortised costs	219,764	Amortised costs	218,526
Total financial assets		11,065,507		10,932,045

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Company (continued)

Reconciliation of statement of financial position balances from the IAS 39 to IFRS 9:

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 as at 31 December 2017 to the new measurement categories under IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassifi-cations	Remea-surements	IFRS 9 carrying amount 1 January 2018
	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets at amortised cost				
Loans receivables	131,006	-	(324)	130,682
Receivables arising out of direct insurance arrangements	1,100,096	-	(109,574)	990,522
Other receivables	64,979	-	(12,771)	52,208
Government securities	3,175,472	-	(3,175)	3,172,297
Deposits with financial institutions	633,241	-	(3,802)	629,439
Commercial paper and bonds	361,573	-	(2,578)	358,995
Cash and bank	219,764		(1,238)	218,526
Total financial assets at amortised costs	**5,686,131**	**-**	**(133,462)**	**5,552,669**
Financial assets at FVTPL				
Quoted Equity	-	1,182,295	-	1,182,295
Investments in Unit trusts	-	25,516	-	25,516
Government securities	-	4,156,858	-	4,156,858
Total financial assets at FVTPL	**-**	**5,364,669**	**-**	**5,364,669**
Financial assets at FVOCI				
Unquoted equity	14,707	-	-	14,707
Investments in Unit trusts	25,516	(25,516)	-	-
Quoted equity	1,182,295	(1,182,295)	-	-
Government securities	4,156,858	(4,156,858)	-	-
Total financial assets at FVOCI	**5,379,376**	**(5,364,669)**	**-**	**14,707**

Designation of equity investments at fair value through other comprehensive income (FVOCI):

The Company has elected to irrevocably designate unquoted equity investments at FVOCI as permitted under IFRS 9. The changes in fair value of these investments cannot be reclassified to profit or loss when they are disposed of.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) New and amended standards adopted by the Company (continued)

Reconciliation of statement of financial position balances from the IAS 39 to IFRS 9:

The following table reconciles the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 as at 31 December 2017 to the new measurement categories under IFRS 9 on 1 January 2018:

Financial asset	Impairment under IAS 39	Reclassifica-tions	Remeasure-ments	Expected Credit Loss under IFRS 9
	Shs'000	Shs'000	Shs'000	Shs'000
Loans receivables	-	-	324	324
Receivables arising out of direct insurance arrangements	977,507	-	110,574	1,088,081
Receivables arising out of reinsurance arrangements	76,848	-	-	76,848
Other receivables	161,173	-	12,771	173,944
Government securities at amortised cost	-	-	3,175	3,175
Deposits with financial institutions	-	-	3,802	3,802
Commercial paper and bonds	-	-	2,578	2,578
Cash and Bank	-		1,238	1,238
Total	**1,215,528**	**-**	**133,462**	**1,348,990**

The remeasurement adjustment posted to retained earnings as at 1 January 2018 was Shs 133,462,000.

In addition to IFRS 9, The Company applied the following standards and interpretations for the first time for the annual reporting period commencing 1 January 2018 and they did not have a significant impact on the financial statements:

IFRS 15 Revenue from contracts with customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The directors of the Company are of the view that the application of IFRS 15 does not have significant impact on the amounts recognised in the financial statements.

Annual improvements 2014-2016 cycle

These amendments impact IFRS 1,' First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.

(ii) New standards and interpretations not yet adopted by the Company

IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The directors of the Company are of the view that the application of IFRS 16 will have an impact on the amounts recognised in the financial statements for annual periods 1 January 2019 going forward and are in the process of assessing the impact of its application.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) New standards and interpretations not yet adopted by the Company (continued)

IFRS 17 Insurance Contracts (issued in May 2017) - establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.

IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

The general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are re-measured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

IFRS 17 is effective on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17.

Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

The Directors do not plan to apply the above standards, until they become effective. Based on their assessment of the potential impact of application of the above, only IFRS 17 is expected to have a significant impact on the Company's financial statements.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

(b) Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Company's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(b) Investments in associates (Continued)

The Company's share of post-acquisition profit or loss is recognised in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/ (loss) of associates in the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Company and its associate are recognised in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. Dilution gains and losses arising in investments in associates are recognised in the statement of profit or loss.

(c) Income recognition

(i) Premium income

Premium income is recognised on assumption of risks, and includes estimates of premium due but not yet received less an allowance for unearned premium. Unearned premium represents the proportion of the premium written in periods up to the accounting date that relate to the unexpired terms of policies in force at the reporting date, and is calculated using the 1/365th method on written premium.

(ii) Commission income

Commissions receivable are recognised as income in the period in which they are earned.

(iii) Investment income

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Dividends receivable are recognised as income in the period in which the right to receive payment is established. Rental income from operating leases is recognised on a straight line basis over the terms of the leases.

(d) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years.

Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(e) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

The Company has recognized a loss allowance on reinsurance receivables following the adoption of IFRS 9.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. The Company also assumes reinsurance risk in the normal course of business for non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are de-recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(f) Receivables arising out of direct insurance arrangements

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

(g) Deferred acquisition costs

Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force after the year end. A proportion of commission payable is deferred and amortised over the period in which the related premiums are earned.

(h) Motor vehicles and equipment

All items of motor vehicles and equipment are initially recorded at cost and subsequently stated at historical cost less any accumulated depreciation.

Depreciation is calculated on motor vehicles and equipment on the straight line basis to write down the cost of each asset, to its residual value over its estimated useful life as follows:

Furniture, fixtures and fittings and office equipment	8 years
Motor vehicles	4 years
Computer equipment	3 years

Assets' residual values and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of motor vehicles and equipment are determined by comparing the proceeds with their carrying amounts and are recognised within 'Other gains / (losses)' in the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(i) Intangible assets – Computer software

Intangible assets comprise of computer software costs which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of 5 years.

(j) Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by independent external valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amounts between the reporting dates are dealt with through the profit or loss.

Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

(k) Financial assets

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (through other comprehensive income or through profit or loss) and,
- Those to be measured at amortised cost,

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cashflows.

For assets measured at fair value, gains and losses will be recorded in profit or loss. For investments in unquoted equity instruments that are not held for trading, the Company has made an irrevocable election at the time of initial recognition to account for them at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

i. Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

ii. Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(k) Financial assets (continued)

Equity instruments

The Company subsequently measures quoted equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

iii. Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example, a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

iv. Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Prior to 1 January 2018, the Company would assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(k) Financial assets (continued)

iv. Impairment (continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor
- a breach of contract, such as a default or delinquency in payments
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:

- An adverse change in the payment status of issuers or debtors in the Company; or

- National or local economic conditions that correlate with defaults on the assets in the Company.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Government securities measured at amortised cost
- Receivables arising from insurance arrangements
- Other receivables
- Loans receivable
- Corporate bonds and commercial paper;
- Deposits with financial institutions; and
- Cash and bank balances.

No impairment loss is recognised on equity investments and financial assets measured at FVTPL.

The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- Other financial instruments (other than trade receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables arising from insurance arrangements and other receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)
2 Significant accounting policies (Continued)
(k) Financial assets (continued)
iv. Impairment (continued)

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

i. Significant financial difficulty of the issuer or the borrower;

ii. A breach of contract - e.g. a default or past-due event;

iii. A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;

iv. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

v. The disappearance of an active market for that financial asset because of financial difficulties; or

vi. The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Company follows the General approach method.

The General approach:

Under the general approach, at each reporting date, the Company determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Company will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Company will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.
- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Company will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(k) Financial assets (continued)

iv. Impairment (continued)

Definition of default

The Company will consider a financial asset to be in default when:

- The counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The counterparty or borrower is more than 180 days past due on any material credit obligation to the Company. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

- Probability of Default;
- Loss given default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the PD tables supplied by S&P based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(k) Financial assets (continued)

iv. Impairment (continued)

Measurement of ECL(continued)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

For loans secured by mortgage property, loan-to-value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company uses to derive the default rates of its portfolios. This includes the PDs provided in the S&P default study.

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

• ***Classification***

Until 31 December 2017, the Company classified its financial assets in the following categories:

- Loans and receivables,
- Held-to-maturity investments and,
- Fair value through other comprehensive income

The classification depended on the purpose for which the investments were acquired.

Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

• ***Reclassification***

The Company could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Company could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading category if the Company had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(k) Financial assets (continued)

iv. Impairment (continued)

Accounting policies applied until 31 December 2017

• ***Subsequent measurement***

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available for sale financial assets were subsequently carried at fair value. Gains or losses arising from change in fair value were recognised through profit or loss.

When financial assets classified as available for sale were sold, the cumulative fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and losses from on revaluation of financial assets.

• **Impairment**

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

(l) Financial liabilities

In both the current period and prior period, financial liabilities are classified and subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire

(m) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(n) Translation of foreign currencies

The financial statements are presented in Kenya Shillings (Shs) rounded to the nearest thousand, which is the Company's functional and reporting currency. In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

(o) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the Company as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to income on the straight-line basis over the term of the lease.

(p) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense in profit or loss.

(q) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered fund, which is funded from contributions from both the Company and employees. Contributions are determined by the rules of the scheme. The Company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The Company's obligations to these schemes are charged to profit or loss as they fall due.

(r) Income tax expense

Income tax expense is the aggregate amount charged /(credited) in respect of current income tax and deferred income tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(r) Income tax expense (continued)

Deferred income tax (continued)

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Company is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Company the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same entity.

(s) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

(t) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(u) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i) Critical judgments in applying the Company's accounting policies

The key areas of judgment in applying the Company's accounting policies are dealt with as follows:

The ultimate liability arising from claims made under insurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that the Company's past claims experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims' inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

ACCOUNTING POLICIES (CONTINUED)

2 Significant accounting policies (Continued)

(u) Critical accounting judgements and key sources of estimation uncertainty (continued)

Measurement of expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVPL is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and - Determining the appropriate business models and assessing the “solely payments of principal and interest (SPPI)” requirements for financial assets.

An increase/decrease of 5 percentage points in factors used in computation of ECLs would result in additional/ reduction in loss allowance for the period of Shs 6.8 million.

Valuation of investment properties

Estimates are made in determining valuations of investment properties. The management uses experts in determination of the values to adopt. In performing the valuation the valuer uses discounted cash flow projections which incorporate assumptions around the continued demand for rental space, sustainability of growth in rent rates as well as makes reference to recent sales. The independent valuers also use the highest and best use principle in determining the value of Investment property. The change in these assumptions could result in a significant change in the carrying value of investment property.

Management monitors the investment property market and economic conditions that may lead to significant change in fair value and conducts a formal and independent property valuation every year and adjusts the recorded fair values accordingly for any significant change.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES

1 Incorporation and registered office

APA Insurance Limited is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is Apollo Centre, 07 Ring Road, Parklands, P. O. Box 30065-00100, Nairobi

2 Risk management objectives and policies

The Company's activities expose it to a variety of risks, including insurance risk, financial risk and credit risk. These risks result in changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The disclosures below summarise the way the Company manages key risks:

2.1 Insurance risk

The risk under any one insurance contract arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits payable are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits payable will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered.

Short-term insurance contracts

The following table discloses the concentration of short-term insurance risks analysed by the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amount of premiums (gross and net of reinsurance) arising from short-term insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.1 Insurance risk (continued)

2.1.1 Frequency and severity of claims (continued)

Year ended 31 December 2018

		Maximum Insured Loss				
Industry Sector		**0m-10m**	**10m-50m**	**50m-100m**	**Over 200m**	**Total**
		Shs Mn	**Shs Mn**	**Shs Mn**	**Shs Mn**	**Shs Mn**
Manufacturing	Gross	271	65	30	260	626
	Net	255	64	27	111	457
Service	Gross	690	399	215	814	2,118
	Net	675	379	193	419	1,666
Construction	Gross	76	39	17	17	149
	Net	75	38	17	3	133
Governmental	Gross	132	24	12	50	218
	Net	130	23	11	6	170
Others	Gross	1,769	228	121	307	2,425
	Net	1,732	215	100	172	2,219
Total	**Gross**	**2,938**	**755**	**395**	**1,448**	**5,536**
	Net	**2,867**	**719**	**348**	**711**	**4,645**

The concentration by sector or maximum insured loss at the end of the year is broadly consistent with the prior year.

Year ended 31 December 2017

		Maximum Insured Loss				
Industry Sector		**0m-10m**	**10m-50m**	**50m-100m**	**Over 200m**	**Total**
		Shs Mn	**Shs Mn**	**Shs Mn**	**Shs Mn**	**Shs Mn**
Manufacturing	Gross	241	58	27	480	806
	Net	128	34	27	445	634
Service	Gross	612	354	191	650	1,807
	Net	371	206	173	633	1,383
Construction	Gross	67	35	15	227	344
	Net	48	20	14	219	301
Governmental	Gross	117	21	11	154	303
	Net	74	12	11	144	241
Others	Gross	540	202	107	805	2,684
	Net	363	117	100	577	1,157
Total	**Gross**	**1,577**	**670**	**351**	**2,316**	**5,944**
	Net	**984**	**389**	**325**	**2,018**	**3,716**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk factors

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. It manages these positions with an Asset Liability Management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Company produces regular reports at portfolio and asset and liability class levels that are circulated to the Company's key management personnel. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings and investments in foreign operations). The Company does not use hedge accounting. The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the Company's ALM framework.

(a) Market risk

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities and deposits with financial institutions. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 5 percentage points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Company's overall exposure to interest rate sensitivities included in the Company's ALM framework and its impact on the Company's profit or loss.

An increase/decrease of 5 percentage points in interest yields would result in additional profit/loss for the period of Shs 412 million (2017: Shs 416 million).

(ii) Price risk

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Securities Exchange.

Investment management meetings are held monthly. At these meetings, senior investment managers meet to discuss investment return and concentration of the equity investments. Listed equity securities represent 63% (2017:65%) of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the Company's equity investments moving according to the historical correlation with the index, equity would have increased/decreased by Shs 54 million (2017: Shs 59 million).

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(iii) Foreign exchange risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. Currently, management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

(b) Credit risk and expected credit losses

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from financial assets, and is managed on a company-wide basis.

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers;
- cash and deposits held with banks and
- rental receivables

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companies of counterparties and to geographical and industry segments. Such risks are subject to regular reviews. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of annual contracts.

In addition, management assesses the credit worthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. The exposure to individual counterparties is also managed through other mechanisms such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and Company's of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous Company's of policyholders, a financial analysis is carried out by the management.

In assessing whether the credit risk on a financial asset has increased significantly, the Company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort.

If the Company does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(b) Credit risk (continued)

The gross carrying amount of financial assets with exposure to credit risk at the 31st December 2018 was as follows

	Gross carrying amount	Expected credit loss	Exposure to credit risk
	Shs '000	Shs '000	Shs '000
Government securities	5,770,703	(2,329)	5,768,374
Mortgage loans	77,514	(256)	77,258
Other loans	31,094	(12)	31,082
Insurance receivables	808,379	(94,126)	714,253
Other Receivables	122,093	(12,030)	110,063
Deposits with financial institutions	2,029,316	(13,895)	2,015,421
Commercial papers and corporate bonds	329,742	(2,388)	327,354
Total	**9,168,841**	**(125,036)**	**9,043,805**

The ageing analysis of past due but not impaired insurance and reinsurance receivables is:

	2018	2017
	Shs 000	Shs 000
0-3 Months	-	-
3-6 Months	357,534	306,462

The past due debtors are not impaired and continue to be paid. An impairment provision of Shs 94,126,000 (2017:Shs 109,574,000) is held against the insurance and reinsurance receivables.

The amount that best represented the Company's maximum exposure to credit risk as at 31 December 2017 was as follows:

	Gross carrying amount	Expected credit loss	Exposure to credit risk
	Shs '000	Shs '000	Shs '000
Government securities	7,332,330	(3,175)	7,329,155
Mortgage loans	77,775	(192)	77,583
Other loans	53,231	(132)	53,099
Insurance receivables	1,100,096	(109,574)	990,522
Other Receivables	64,979	(12,771)	52,208
Deposits with financial institutions	633,241	(3,802)	629,439
Commercial papers and corporate bonds	361,573	(2,578)	358,995
Total	**9,623,225**	**(132,224)**	**9,491,001**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(b) Credit risk (continued)

The customers under the fully performing category of receivables under insurance and reinsurance contracts are paying their debts as they continue trading with the Company. Receivables in the impaired category are fully provided for and they continue being pursued for settlement.

The customers under the fully performing category of receivables under insurance and reinsurance contracts are paying their debts as they continue trading with the Company. Receivables in the impaired category are fully provided for and they continue being pursued for settlement.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limit on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

The table below presents the cash flows payable by the Company by their remaining contractual maturities (other than insurance contract liabilities which are based on expected maturities). The amounts disclosed are the contractual undiscounted cash flows.

31 December 2018	Total Amount	Contractual cash flows (undiscounted) No stated Maturity	0-1 year	1-5 years	> 5 years
Financial assets:	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Debt securities held to maturity:					
-Government bonds and treasury bills-fixed rate	2,981,026	-	1,246,097	816,879	918,050
-Commercial paper and corporate bonds	388,367	-	107,109	281,258	-
Government bonds – at FVTPL	6,422,002	-	137,150	791,482	5,493,370
Quoted equity securities - at FVTPL	1,076,106	1,076,106	-	-	-
Mortgage loans	200,388	-	-	643	199,745
Other loans	31,082	-	2,384	28,698	-
Insurance and reinsurance receivables	1,271,005	-	808,994	462,011	-
Deposits with financial institutions maturing after 90 days	1,922,345	-	1,922,345	-	-
Cash and cash equivalents (Note 32(b))	599,304	-	599,304	-	-
Total	**14,891,625**	**1,076,106**	**4,823,383**	**2,380,971**	**6,611,165**
Short term insurance liabilities:					
Insurance contracts	6,492,192	-	3,419,269	2,618,470	454,453
Less assets arising from reinsurance contracts	(1,176,453)	-	(619,607)	(474,494)	(82,352)
Payables arising from reinsurance arrangements	12,332	-	12,332	-	-
Total	**5,328,071**	**-**	**2,811,994**	**2,143,976**	**372,101**
Difference in contractual cash flows	**9,563,554**	**1,076,106**	**2,011,389**	**236,995**	**6,239,064**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(c) Liquidity risk(continued)

		Contractual cash flows (undiscounted)			
31 December 2017	**Total Amount**	**No stated Maturity**	**0-1 year**	**1-5 years**	**> 5 years**
Financial assets:	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Debt securities held to maturity:					
-Government bonds and treasury bills-fixed rate	4,320,368	-	1,624,113	1,447,844	1,248,411
-Commercial paper and corporate bonds	418,667	-	115,466	303,201	-
Government bonds - available for sale	7,323,643	-	430,196	2,238,639	4,654,808
Quoted equity securities- available for sale	1,182,295	1,182,295	-	-	-
Mortgage loans	201,728	-	-	5,384	196,344
Other loans	53,231	-	7,342	45,889	-
Insurance and reinsurance receivables	1,669,207	-	1,217,087	452,120	-
Deposits with financial institutions maturing after 90 days	-	-	-	-	-
Cash and cash equivalents (Note 32(b))	1,146,962	-	1,146,962	-	-
Total	**16,316,101**	**1,182,295**	**4,541,166**	**4,493,077**	**6,099,563**
Short term insurance liabilities:					
Insurance contracts	6,654,070	-	3,598,690	2,566,013	489,367
Less assets arising from reinsurance contracts	(1,125,225)	-	(608,744)	(433,758)	(82,723)
Payables arising from reinsurance arrangements	97,647	-	97,647	-	-
Total	**5,626,492**	**-**	**3,087,593**	**2,132,255**	**406,644**
Difference in contractual cash flows	**10,689,609**	**1,182,295**	**1,453,573**	**2,360,822**	**5,692,919**

(d) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's financial assets and liabilities measured at fair value at 31 December 2018 and 31 December 2017

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(d) Fair value hierarchy (continued)

At 31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Fair value through profit or loss				
- Government securities FVTPL	3,441,373	-	-	3,441,373
- Equity investments FVTPL	1,076,106	-	-	1,076,106
- Investments in unit trusts	-	27,687	-	27,687
Fair value through other comprehensive income				
- Equity investments FVOCI	-	5,515	-	5,515
Total	4,517,479	33,202	-	4,550,681

At 31 December 2017	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Available for sale				
- Government securities	4,156,858	-	-	4,156,858
- Quoted equity investments – available for sale	1,182,295	-	-	1,182,295
- Investment in unquoted equity	-	14,707	-	14,707
- Investment in unit trusts	-	25,516	-	25,516
Total	5,339,153	40,223	-	5,379,376

There were no transfers between levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Company, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include;

Quoted market prices or dealer quotes for similar instruments

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(d) Fair value hierarchy (continued)

The table below sets out the Company's classification of each class of financial assets and liabilities, and their fair values:

As at 31 December 2018	FVTPL Shs'000	FVOCI Shs'000	Amortised cost Shs'000	Fair values Shs'000
Assets				
Quoted equity securities	1,076,106	-	-	**1,076,106**
Investments in Unquoted equity	-	5,515	-	**5,515**
Investment in unit trusts	27,687	-	-	**27,687**
Investments in Government securities- FVTPL	3,441,373	-	-	**3,441,373**
Investments in Government securities- Amortised cost	-	-	2,327,001	**2,327,001**
Loans receivables	-	-	108,340	**108,340**
Insurance and reinsurance receivables	-	-	1,271,005	**1,271,005**
Reinsurer's share of insurance liabilities and reserves	-	-	2071,079	**2071,079**
Other receivables	-	-	110,063	**110,063**
Deposits with financial institutions	-	-	2,015,421	**2,015,421**
Commercial paper and bonds	-	-	327,354	**327,354**
Cash and bank balances	-	-	137,714	**137,714**
Total	**4,545,166**	**5,515**	**8,367,977**	**12,918,658**
Liabilities				
Insurance contract liabilities	-	-	6,492,192	**6,492,192**
Payables from reinsurance arrangements	-	-	12,334	**12,334**
Other payables	-	-	383,972	**383,972**
Bank overdraft	-	-	39,658	**39,658**
Total	-	-	6,928,156	**6,928,156**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk (continued)

(d) Fair value hierarchy (continued)

As at 31 December 2017	Held to maturity Shs'000	Loans and receiv-ables Shs'000	Available-for-sale Shs'000	Other amortised cost Shs'000	Total carrying amount Shs'000	Fair values Shs'000
Assets						
Quoted equity securities	-	-	1,182,295	-	1,182,295	**1,182,295**
Investments in Unquoted equity	-	-	14,707	-	14,707	**14,707**
Investment in unit trusts	-	-	25,516	-	25,516	**25,516**
Investments in Government securities- HTM	3,175,472	-	-	-	3,175,472	**3,175,472**
Investments in Government securities- AFS	-	-	4,156,858	-	4,156,858	**4,156,858**
Loans	-	131,006	-	-	131,006	**131,006**
Insurance and reinsurance receivables	-	1,669,207	-	-	1,669,207	**1,669,207**
Reinsurer's share of insurance liabilities and reserves	-	2,102,040	-	-	2,102,040	**2,102,040**
Other receivables	-	64,979	-	-	64,979	**64,979**
Deposits with financial institutions	-	633,241	-	-	633,241	**633,241**
Cash and bank balances		219,764	-	-	219,764	**219,764**
Total	**3,175,472**	**4,820,237**	**5,379,376**	**-**	**13,375,085**	**13,375,085**
Liabilities						
Insurance contract liabilities	6,654,070	-	-	-	6,654,070	**6,654,070**
Payables from reinsurance arrangements	-	97,647	-	-	97,647	**97,647**
Other payables		421,111			421,111	**421,111**
Bank overdraft	11,087	-	-	-	11,087	**11,087**
Total	**6,665,157**	**518,758**	**-**	**-**	**7,183,915**	**7,183,915**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

2 Risk management objectives and policies (continued)

2.3 Capital management

The Company maintains an efficient capital structure consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- to allocate capital efficiently to support growth
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

An important aspect of the Company's overall capital management process is the setting of a target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it and seeks to optimise its equity/debt structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital, all items that are eligible to be treated as such for regulatory purposes.

The Company is regulated by the Insurance Regulatory Authority in Kenya. The new capital requirements Risk Based Capital) were introduced in the Finance Act, 2015. Insurance companies are required to hold paid up capital the higher of:

i) Shs 600 million; or

ii) risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or

iii) 20% of previous year's net earned premium.

The Company's Capital adequacy ratio position as at 31 December 2018 and 2017 is illustrated below.

	2018 Shs'000	2017 Shs'000
Available Capital	4,056,395	5,389,479
Required Capital	1,915,043	2,163,712
Capital Adequacy ratio	**212%**	**249%**
Required Capital Adequacy ratio	**180%**	**180%**

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

3 Gross earned premium

The Company underwrites general insurance business only. This has been analysed into several sub-classes of business based on the nature of the assumed risks as shown below:

	2018 Shs'000	2017 Shs'000
Engineering	191,460	200,087
Fire	919,869	739,867
Liability	131,154	124,926
Marine and transit	253,085	177,029
Motor	2,616,375	2,694,381
Personal accident and Medical	3,945,687	3,465,260
Theft	210,232	181,788
Workmen's compensation	626,637	611,871
Other	319,749	458,056
Total	9,214,248	8,653,265

4 Investment income	2018 Shs'000	2017 Shs'000
Interest from government securities	659,835	693,688
Bank deposit interest	146,771	100,404
Loan interest receivable	9,808	5,424
Rental income from investment properties	46,541	51,544
Dividends receivable from equity investments	65,151	71,833
Realised gain from trading in available for sale financial assets	40,728	50,113
Unrealised loss on revaluation of financial assets at FVTPL	(161,491)	-
Fair value gain on investment properties (Note 14)	30,000	88,000
Total	837,343	1,061,006

5 Other income

Miscellaneous income	3,373	1,202
Gains/ (loss) on disposal of property and equipment	940	351
Gains / (loss) on disposal of investment properties	(253)	-
Total	4,060	1,553

6 Net incurred claims	2018 Shs'000	2017 Shs'000
Engineering	4,261	53,230
Fire	145,306	172,786
Liability	70,082	(46,829)
Marine and transit	62,661	59,729
Motor	1,809,125	1,658,032
Personal accident and Medical	1,802,264	1,657,639
Theft	81,228	139,788
Workmen's compensation	217,220	454,100
Other	114,865	(51,165)
Total	4,307,012	4,097,310

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

7 Operating and other expenses

	2018 Shs'000	2017 Shs'000
Employee benefits (Note 8)	735,690	715,594
Auditors' remuneration	7,052	5,591
Directors emoluments – fees	6,048	5,309
- other	68,725	58,198
Depreciation (Note 12)	29,915	31,220
Amortisation (Note 13)	27,803	23,969
Impairment charge for doubtful receivables	142,602	307,300
Operating lease rentals – land and buildings	110,027	109,031
Repairs and maintenance expenditure	13,961	14,228
Premium and reinsurance levies	92,826	77,339
Policyholders compensation fund contributions	22,907	20,165
Printing and stationery	13,677	27,622
Telecommunications expenses	22,291	22,263
Travelling expenses	28,275	22,802
Advertisement and promotion costs	188,064	115,505
Marketing expenses	280,983	173,619
Other	86,663	98,636
Total	1,877,509	1,828,391

8 Employee benefits

	2018 Shs'000	2017 Shs'000
The following are included in employee benefits expense:		
- salaries and wages	645,889	627,053
- group life premium	8,625	7,762
- medical expenses	36,915	41,740
- other retirement benefit costs	43,388	38,156
- social security benefit costs	873	883
Total	735,690	715,594

The Company had 353 employees as at 31 December 2018 (2017:353)

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

9 Income tax expense

(a) Tax charge

	2018 Shs'000	2017 Shs'000
Current income tax	208,285	212,073
Deferred income tax credit (Note 30)	(42,443)	(79,579)
Income tax expense	165,842	132,494

(b) Reconciliation of expected tax based on accounting profit to taxation expense

	2018 Shs'000	2017 Shs'000
Profit before income tax	676,691	792,258
Tax calculated at tax rate of 30% (2017: 30%)	203,007	237,677
Tax effect of income not subject to tax	(126,287)	(158,743)
Tax effect of expenses not tax deductible	90,622	57,960
Deferred tax on fair value gains on investment properties at CGT rate	(1,500)	(4,400)
Tax charge	165,842	132,494

(c) Current income tax

	2018 Shs'000	2017 Shs'000
At 1 January	(7,729)	(20,458)
Current tax charge for the year (Note 9(a))	208,285	212,073
Paid in the year	(224,614)	(199,344)
At 31 December	(24,058)	(7,729)

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year,

	2018 Shs'000	2017 Shs'000
Profit for the year (Shs'000)	510,849	659,764
Weighted average number of ordinary shares in issue (thousands)	12,500	12,500
Earnings per share (Shs) - basic and diluted	**40.87**	**52.78**

11 Dividends

At the annual general meeting to be held in April 2019, a first and final dividend in respect of the year ended 31 December 2018 of Shs 48 (2017: Shs 120) per share amounting to a total of Shs 600,000,000 (2017:Shs 1,500,000,000) is to be proposed. No interim dividend was paid during the year.

Payment of dividends is subject to withholding tax at the rate of 5% or 10%, depending on the residence of the individual shareholders.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

12 Motor vehicles and equipment

	Motor vehicles Shs' 000	Fittings and equipment Shs' 000	Total Shs' 000
Year 2017			
Cost			
At 1 January 2017	19,108	259,423	278,531
Additions	3,800	21,767	25,567
Disposal	(2,750)	(77)	(2,827)
At 31 December 2017	**20,158**	**281,113**	**301,271**
Depreciation			
At 1 January 2017	6,584	166,670	173,254
Charge for the year	4,388	26,832	31,220
Eliminated on disposal	(1,718)	(30)	(1,748)
At 31 December 2017	**9,254**	**193,551**	**202,805**
Net book value			
At 31 December 2017	**10,904**	**87,562**	**98,466**
Year 2018			
Cost	**20,158**	**281,113**	**301,271**
Additions	-	14,461	14,461
Disposal	(1,850)	(89)	(1,939)
At 31 December 2018	**18,308**	**295,485**	**313,793**
Depreciation			
At 1 January 2018	**9,254**	**193,551**	**202,805**
Charge for the year	4,577	25,338	29,915
Eliminated on disposal	(1,850)	(30)	(1,880)
At 31 December 2018	**11,981**	**218,859**	**230,840**
Net book value			
At 31 December 2018	**6,327**	**76,626**	**82,953**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

13 Intangible assets – computer software

Cost	2018 Shs'000	2017 Shs'000
At 1 January	180,242	119,625
Additions	2,618	60,617
At 31 December	182,860	180,242
Amortisation		
At 1 January	107,747	83,778
Charge for the year	27,803	23,969
At 31 December	135,550	107,747
Net book value:		
At 31 December	47,310	72,495

14 Investment properties

	2018 Shs'000	2017 Shs'000
At 1 January	1,313,000	1,225,000
Disposals	(343,000)	-
Fair value gain (Note 4)	30,000	88,000
At 31 December	1,000,000	1,313,000

Investment properties were last revalued on 31 December 2018, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Investment property	-	-	1,000,000	1,000,000
At 31 December 2017				
Investment property	-	-	1,313,000	1,313,000

Valuation technique used to derive level 3 fair values

Level 3 fair value of land and building has been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

15 Equity investments

(a) Investment in associates	2018 Shs'000	2017 Shs'000
At I January	618,675	597,913
Share of after tax profit	17,602	26,066
Share of investment revaluation reserve, net of tax	449	(2,144)
Translation adjustment	(9,119)	(3,160)
At 31 December	627,607	618,675

This comprises 1,907,400 (2017: 1,907,400) ordinary shares of Tanzania Shillings 1,000 each representing 34% shareholding in Reliance Insurance Company (Tanzania) Limited, an insurance company incorporated in Tanzania and 200,00 (2017: 200,000) ordinary shares of Kenya Shillings 20 each representing 40% shareholding in Gordon Court Limited, a property development company incorporated in Kenya. Both associates have 31 December as their reporting date.

Summarised financial information in respect of the Company's share of results and net assets in the associates is set out below:

	2018 Sh'000	2017 Sh'000
Total assets:		
Reliance Insurance Company (Tanzania) Limited	2,046,715	2,221,307
Gordon Court Limited	1,321,268	1,019,708
Total liabilities:		
Reliance Insurance Company (Tanzania) Limited	1,397,193	1,546,850
Gordon Court Limited	300,294	46,307
Net assets:		
Reliance Insurance Company (Tanzania) Limited	649,522	674,455
Gordon Court Limited	1,020,974	973,401
Company's share of net assets of associate:		
Reliance Insurance Company (Tanzania) Limited	220,837	229,315
Gordon Court Limited	406,770	389,360
Total revenue:		
Reliance Insurance Company (Tanzania) Limited	899,410	878,067
Gordon Court Limited	141,268	135,675
Profit for the year:		
Reliance Insurance Company (Tanzania) Limited	(2,721)	45,674
Gordon Court Limited	44,110	26,343
Company's share of profit for the year:		
Reliance Insurance Company (Tanzania) Limited	(42)	15,529
Gordon Court Limited	17,644	10,537
Total	17,602	26,066

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

15 Equity investments

(b) Investment in unquoted shares (continued)

	2018 Shs 000	2017 Shs 000
At 1 January	14,707	14,707
Disposals	-	-
Fair value loss through OCI	(9,192)	-
31 December	5,515	14,707

16 Available for sale quoted equity investments

	2018 Shs 000	2017 Shs 000
At 1 January	1,182,295	1,499,914
Additions	-	76,933
Disposals	-	(564,115)
Fair value gain through other comprehensive income	-	169,563
Reclassified to fair value through profit or loss	(1,182,295)	-
At 31 December	-	1,182,295

Fair value through profit and loss quoted equity investments

	2018 Shs 000	2017 Shs 000
At 1 January	-	-
Reclassification from Available for sale quoted equity investments	1,182,295	-
Additions	204,906	-
Disposals	(119,957)	-
Fair value loss	(191,138)	-
At 31 December	1,076,106	-

17 Loans receivable

	2018 Shs 000	2017 Shs 000
Mortgage loans		
At 1 January	77,775	49,832
Loans advanced	4,070	30,583
Repayments received	(4,331)	(2,640)
Provision for impairment	(256)	-
At 31 December	77,258	77,775
Other loans		
At 1 January	53,231	57,047
Loans advanced	6,792	25,765
Repayments received	(28,929)	(29,581)
Provision for impairment	(12)	-
At 31 December	31,082	53,231
Total	108,340	131,006

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

17 Loans receivable (continued)

	2018 Shs'000	2017 Shs'000
Summary		
At 1 January	131,006	106,879
Loans advanced	10,862	56,348
Loan repayments	(33,260)	(32,221)
Provision for impairment	(268)	-
At 31 December	108,340	131,006
Lending commitments		
Mortgage loans approved by the directors but not disbursed at 31 December	-	4,070

There is no undue concentration of credit risk with respect to mortgage and other loans. Weighted average effective interest rates are disclosed under note 31.

18 Reinsurers' share of insurance liabilities and reserves

	2018 Shs'000	2017 Shs'000
Reinsurers' share of:		
- provision for unearned premiums (Note 28)	904,797	976,815
- notified claims outstanding (Note 27 (b))	912,028	946,839
- claims incurred but not reported (Note 27(b))	264,426	178,386
Total	2,081,251	2,102,040

Amounts due from reinsurers in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above reinsurance assets are shown in notes 27 and 28.

19 Deferred acquisition costs

	2018 Shs'000	2017 Shs'000
At 1 January	139,203	198,074
Additions	172,748	139,203
Amortisation for the year	(139,203)	(198,074)
At 31 December	172,748	139,203

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

20 Other receivables

	2018 Shs'000	2017 Shs'000
Due from related companies (Note 35(iii)(a))	55,412	2,828
Staff advances	25,511	28,736
Sundry deposits and prepayments	26,157	22,966
Rental receivables	11,903	8,328
Other receivables	3,541	2,121
Provision for impairment	(12,030)	-
Total	110,494	64,979

The carrying value of the above receivables approximates their fair values.

21 Government securities

(a) At amortised costs

	2018 Shs'000	2017 Shs'000
Treasury bills and bonds at amortised cost maturing:		
Within 90 days	237,037	305,044
After 90 days but within a year	927,695	1,239,096
In 1 to 5 years	669,343	1,138,328
Over 5 years	495,255	493,004
Provision for impairment	(2,329)	-
Total	2,327,001	3,175,472

(b) Fair value through profit or loss

	2018 Shs'000	2017 Shs'000
Government treasury and infrastructure bonds:		
At 1 January	-	
Reclassified from available for sale	4,156,858	-
Additions	592,430	-
Maturities during the year	(469,198)	-
Disposals	(866,164)	-
Fair value gain through profit or loss	27,447	-
At 31 December	3,441,373	-

Available for sale

	2018 Shs'000	2017 Shs'000
Government treasury and infrastructure bonds:		
At 1 January	4,156,858	3,341,598
Additions	-	1,052,133
Maturities during the year	-	(141,358)
Disposals	-	(210,547)
Fair value gain through other comprehensive income	-	115,032
Reclassified to fair value through profit or loss	(4,156,858)	-
At 31 December	-	4,156,858

These bonds are carried at fair values based on the Nairobi Securities Exchange prices as at 31 December. Weighted average effective interest rates are disclosed under note 31.

The treasury bonds include bonds under lien as required by Insurance Act with a carrying value of Shs 962 million (2017: Shs 742 million).

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

22 Deposits with financial institutions	2018 Shs'000	2017 Shs'000
Deposits maturing:		
Within 90 days	264,212	633,241
After 90 days but within a year	1,852,854	87,750
Provision for impairment	(101,645)	(87,750)
Total	2,015,421	633,241

The deposit with financial institutions includes Shs 87.75 Million (2017: Shs 87.75 Million) deposit with Imperial Bank Limited (in receivership). The directors have made full impairment provision for this deposit.

Weighted average effective interest rates are disclosed under note 31.

23 Commercial paper and corporate bonds	2018 Shs'000	2017 Shs'000
At 1 January	361,573	291,763
Additions	36,189	70,900
Maturities during the year	(68,020)	(1,090)
Provision for impairment	(2,388)	-
At 31 December	327,354	361,573

Weighted average effective interest rates are disclosed under note 31.

24 Share capital	Number of shares	Share Capital Shs'000
Balance as at 1 January 2017, 31 December 2017 and 31 December 2018	12,500,000	1,250,000

The total authorised number of ordinary shares is 12,500,000 with a par value of Shs 100 per share. All issued shares are fully paid.

25 Reserves

(a) Other reserves

Other reserves represent net surpluses /(deficits) that arise on the revaluation of financial assets carried through other comprehensive income. This reserve is non-distributable. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit and loss.

Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit and loss.

The movement in this reserve is shown in the statement of changes in equity.

b) Translation reserve

The translation reserve relates to translation gains and losses arising from translating the financial statements of the foreign operation in Tanzania.

The movement in this reserve is shown in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

26 Retained earnings

The retained earnings balance represents the amount available for distribution to the shareholders of the Company, with the exception of cumulative fair value gains on the Company's investment properties amounting to Shs 745,825,000 (2017: Shs 715,825,000) whose distribution is subject to restrictions imposed by legislation.

27 (a) Insurance contract liabilities	2018 Shs'000	2017 Shs'000
Short term non – life insurance contracts		
- claims reported and claims handling expenses	5,123,320	5,430,823
- provision for claims incurred but not reported	1,368,872	1,223,247
Total	6,492,192	6,654,070

27 (b) Movements in insurance contract liabilities and reinsurance assets

	2018 Gross Shs '000	2018 Re-insurance Shs '000	2018 Net Shs '000	2017 Gross Shs '000	2017 Re-insurance Shs '000	2017 Net Shs '000
At 1 January:						
Notified claims	5,430,823	946,839	4,483,984	5,599,264	866,678	4,732,586
Incurred but not reported	1,223,247	178,386	1,044,861	1,222,240	161,829	1,060,411
Total at 1 January	6,654,070	1,125,225	5,528,845	6,821,504	1,028,507	5,792,997
Cash paid for claims settled in year	(6,542,346)	(2,021,806)	(4,520,540)	(6,377,523)	(2,016,061)	(4,361,462)
Increase in liabilities:						
-arising from current year claims	6,331,608	2,508,267	3,823,341	6,001,056	2,396,965	3,604,091
-arising from prior year claims	48,860	(435,233)	484,093	209,033	(284,608)	493,641
Total increase in liabilities	6,380,468	2,073,034	4,307,434	6,210,089	2,112,357	4,097,732
Change in outstanding claims	(161,878)	51,228	(213,106)	(167,434)	96,718	(264,152)
Total at 31 December	6,492,192	1,176,453	5,315,739	6,654,070	1,125,225	5,528,845
Notified claims	5,123,320	912,027	4,211,293	5,430,823	946,839	4,483,984
Incurred but not reported	1,368,872	264,426	1,104,446	1,223,247	178,386	1,044,861
Total at 31 December	6,492,192	1,176,453	5,315,739	6,654,070	1,125,225	5,528,845

28 Provision for unearned premium and unexpired risk reserve

The provision for unearned premium represents the liability for short term business contracts where the Company's obligations have not expired at the year end.

Movements in the reserves are shown below:

	Gross Shs'000	Re-insurance Shs'000	2018 Shs'000	Gross Shs'000	Re-insurance Shs'000	2017 Shs'000
At 1 January	3,095,204	976,815	2,118,389	3,445,393	977,754	2,467,639
Increase / (Decrease)	344,420	(72,018)	416,438	(350,189)	(939)	(349,250)
At 31 December	3,439,624	904,797	2,534,827	3,095,204	976,815	2,118,389

The Company uses 1/365th method of calculating the unearned premium reserve. The 2018 reserve includes a net provision for unexpired risk reserve of Shs 54,795,000 (2017: Shs 50,809,000)

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

29 Other payables

	2018 Shs'000	2017 Shs'000
Due to related companies (Note 35 (iii)(b))	3,854	4,287
Accrued expenses	133,885	92,582
Rental deposits	24,800	23,948
Other liabilities	221,433	300,294
Total	**383,972**	**421,111**

30 Deferred income tax

Deferred income tax is calculated using the enacted capital gains tax rate of 5% for investments property and available for sale cumulative reserves and 30% for the assets (2017: 30%). Deferred tax assets and liabilities, and the deferred tax charge / (credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items:

	2018 Shs'000	2017 Shs'000
At 1 January	(295,483)	(215,639)
Impairment adjustment at 1 Jan 2018	(40,039)	-
Credit to profit or loss (Note 9(a))	(42,443)	(79,579)
Credit to other comprehensive income	(433)	(265)
Capital gains tax paid	(8,030)	-
At 31 December	(386,428)	(295,483)

Year ended 31st December 2018	At 1 Jan 2018 Shs'000	Impairment adjustment as at 1 Jan 2018 Shs'000	(Credited)/ charged to P/L Shs'000	(Credited)/ Charged to OCI Shs'000	Capital gains tax paid Shs'000	At 31 Dec 2018 Shs'000
Deferred income tax asset						
Property and equipment on historical cost basis	1,405	-	(563)	-	-	842
Provision for doubtful debts	(318,749)	-	(45,597)	-	-	(364,346)
Impairment provision for fixed deposit	(26,325)	-	-	-	-	(26,325)
Impairment provision expected credit losses	-	(40,039)	-	-	-	(40,039)
Total asset	(343,669)	(40,039)	(46,160)	-	-	(429,868)
Deferred income tax liability						
Available for sale investments	(139)	-	-	(433)	-	(572)
Investment property	48,325	-	1,500	-	(8,030)	41,795
Expected credit losses	-	-	2,217	-	-	2,217
Total liability	48,186		3,717	(433)	(8,030)	43,440
Net deferred tax asset	**(295,483)**	**(40,039)**	**(42,443)**	**(433)**	**(8,030)**	**(386,428)**

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

30 Deferred income tax (continued)

Year ended 31st December 2017	At 1 Jan 2017	(Credited)/ charged to P/L	(Credited)/ Charged to OCI	At 31 Dec 2017
Deferred income tax asset	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Property and equipment on historical cost basis	6,098	(4,693)	-	1,405
Provision for doubtful debts	(235,788)	(82,961)	-	(318,749)
Impairment provision for fixed deposit	(30,000)	3,675	-	(26,325)
Total asset	(259,690)	(83,979)	-	(343,669)
Deferred income tax liability				
Available for sale investments	126	-	(265)	(139)
Investment property	43,925	4,400	-	48,325
Total liability	44,051	4,400	(265)	48,186
Net deferred tax asset	**(215,639)**	**(79,579)**	**(265)**	**(295,483)**

31 Weighted average effective interest rates

The following table summarises the weighted average effective interest rate at 31 December on the principal interest-bearing investments:

	2018 %	2017 %
Mortgage loans	10	10
Government securities	12	12
Deposits with financial institutions	10	10
Commercial bonds	13	13
Other loans	10	10

32 Notes to the statement of cash flows

	2018 Shs'000	2017 Shs'000
a) Cash generated from operations		
Reconciliation of profit before tax to cash generated from operations;		
Profit before income tax	676,691	792,258
Adjustments for:		
Interest income	(816,414)	(799,516)
Loss on sale of investment property	253	-
Depreciation (Note 12)	29,915	31,220
Amortisation of intangible assets (Note 13)	27,803	23,969
(Gain) / loss on disposal of property and equipment (Note 5)	(940)	(351)
(Gain) / Loss on sale of available for sale financial assets (Note 4)	(40,728)	(50,113)
Unrealised loss on revaluation of financial assets at FVTPL	161,491	-
Gain in fair value of investment property (Note 14)	(30,000)	(88,000)
IFRS 9 Impairment provision movement	(7,386)	-
Impairment of financial assets	(107,195)	-
Share of profits from associates (Note 15(a))	(17,602)	(26,066)
(Loss) before working capital changes	(124,112)	(116,599)

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

32 Notes to the statement of cash flows (continued)

a) Cash generated from operations (continued)	**2018 Shs'000**	**2017 Shs'000**
Changes in working capital:		
- technical provisions	203,331	(613,402)
- trade and other payables	(122,454)	(108,280)
- trade and other receivables	319,168	762,127
Cash generated from operations	275,933	(76,154)

b) For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:		
Cash and bank balances	137,714	219,764
Deposits with financial institutions maturing within 90 days (Note 22)	264,211	633,241
Treasury bills and bonds maturing within 3 months (Note 21(a))	237,037	305,044
Bank overdraft	(39,658)	(11,087)
Total	599,304	1,146,962

c) Bank overdraft

The bank overdraft balance represents a book overdraft.

33 Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that the outstanding litigation in this respect will not have a material effect on the financial position or profits of the Company.

The Company is aware that Kenya Revenue Authority (KRA) has made claims on the players in insurance industry in respect of certain taxes, which have been subject of intense negotiations between all the stakeholders. Based on the available information including expert opinions received and ongoing stakeholder discussions, the directors are of the opinion that there still exists uncertainty as regards some of the taxes and accordingly no provision has been made for these taxes until the matter is clarified or fully concluded.

The Company has issued financial guarantees against counter indemnities from third parties for an aggregate outstanding exposure of Shs. 40,161,444 as at 31 December 2018 (2017: Shs. 60,000,000). No loss is expected to arise on these guarantees.

34 Commitments

Capital commitments

Capital commitments at the end of the year for which no provision has been made in these financial statements are as follows:

	2018 Shs'000	**2017 Shs'000**
Authorised and contracted for	9,000	11,600
Authorised but not contracted for	69,100	94,800
Total	78,100	106,400

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Not later than 1 year	114,254	100,251
Later than 1 year and not later than 5 years	322,447	326,673
Later than 5 years	1,141	11,279

NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES (continued)

35 Related parties

The Company is controlled by Apollo Investments Limited, a company incorporated in Kenya which owns 100% of the Company's shares.

In the normal course of business, insurance policies are sold to related parties. Transaction with related parties during the year and related outstanding balances are disclosed below:

	2018 Shs'000	2017 Shs'000
i) Insurance business transacted with related parties		
Gross written premium:		
- Parent company	2,306	2,568
- Other related parties	1,775	1,315
Total	4,081	3,883
ii) Mortgage loans advanced to staff	77,258	77,775
iii) Outstanding balances with related parties		
a) Due from related parties (Note 20)		
APA Life Assurance Limited	537	2,614
Reliance Insurance Company (Tanzania) Limited	75	214
Gordon Court Limited	54,800	-
Total (Note 20)	55,412	2,828
b) Due to related parties (Note 29)		
Apollo Asset Management Company Limited	(1,437)	(2,292)
APA Insurance (Uganda) Limited	(2,417)	(1,995)
Total (Note 29)	(3,854)	(4,287)
iv) Directors' and key management remuneration		
Directors' fees	6,048	5,309
Directors' other remuneration	68,725	58,198
Remuneration to key management personnel (included in staff costs (Note 8))	178,026	160,807
Total	252,799	224,314

UNDERWRITING REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

Class of Insurance Business	Aviation Shs'000	Engi-neering Shs'000	Fire Do-mestic Shs'000	Fire Indus-trial Shs'000	Liability Shs'000	Marine & Transit Shs'000	Motor Private Shs'000	Motor Commer-cial Shs'000	Medical Shs'000	Personal Accident Shs'000	Theft Shs'000	Work-men's Compen-Sation Shs'000	Miscella-neous Shs'000	Total 2018 Shs'000	Total 2017 Shs'000
Gross premium written	35,263	165,893	84,222	734,627	84,766	201,561	1,384,567	1,511,590	4,036,944	190,029	222,052	637,257	269,898	9,558,669	8,303,075
Change in gross UPR	(4,164)	25,567	(2,970)	103,990	46,388	51,524	(144,121)	(135,661)	(337,759)	56,473	(11,819)	(10,621)	18,752	(344,421)	(350,189)
Gross earned premium	**31,099**	**191,460**	**81,252**	**838,617**	**131,154**	**253,085**	**1,240,446**	**1,375,929**	**3,699,185**	**246,502**	**210,233**	**626,636**	**288,650**	**9,214,248**	**8,653,266**
Less: reinsurance payable	(30,716)	(131,594)	(25,123)	(626,906)	(55,390)	(78,993)	(18,242)	(24,767)	(1,488,403)	(25,319)	(26,223)	(33,596)	(150,020)	(2,715,292)	(2,565,020)
Net earned premium	**383**	**59,866**	**56,129**	**211,711**	**75,764**	**174,092**	**1,222,204**	**1,351,162**	**2,210,782**	**221,183**	**184,010**	**593,040**	**138,630**	**6,498,956**	**6,088,246**
Gross claims paid	5,132	47,133	30,918	500,269	73,741	72,100	1,112,824	1,165,663	2,772,535	112,126	96,297	300,191	253,417	6,542,346	6,377,523
Change in gross outstanding claims	(15,000)	(15,854)	(1,518)	1,127	(4,604)	(272)	(184,206)	(48,051)	91,263	46,488	13,137	(85,048)	40,660	(161,878)	(167,856)
Less: Reinsurance recoverable	9,291	(26,999)	(9,546)	(376,135)	1,268	(10,803)	(51,871)	(186,393)	(1,160,597)	(57,640)	(28,583)	1,709	(177,159)	(2,073,458)	(2,112,357)
Net incurred claims	**(577)**	**4,280**	**19,854**	**125,261**	**70,405**	**61,025**	**876,747**	**931,219**	**1,703,201**	**100,974**	**80,851**	**216,852**	**116,918**	**4,307,010**	**4,097,310**
Commissions receivable	(4,161)	(35,587)	(5,099)	(135,480)	(3,702)	(17,937)	(471)	(640)	(346,556)	(999)	(2,185)	(10,924)	(11,638)	(575,379)	(571,665)
Commissions payable	3,562	32,383	15,388	140,262	13,753	37,590	123,225	136,426	366,279	45,717	21,156	130,383	13,390	1,079,514	1,030,576
Expenses of management	121	33,249	16,985	147,953	17,114	40,659	291,806	320,500	536,373	38,137	44,955	134,833	54,508	1,677,193	1,465,892
Total expenses and commissions	**-478**	**30,045**	**27,274**	**152,735**	**27,165**	**60,312**	**414,560**	**456,286**	**556,096**	**82,855**	**63,926**	**254,292**	**56,260**	**2,181,328**	**1,924,803**
Underwriting profit / (loss)	**1,438**	**25,541**	**9,001**	**(66,285)**	**(21,806)**	**52,755**	**(69,103)**	**(36,343)**	**(48,515)**	**37,354**	**39,233**	**121,896**	**(34,548)**	**10,618**	**66,133**

Key ratios	%	%
Loss ratio (net claims incurred/net earned premium)	66.27	67.30
Commissions ratio (commissions payable/gross written premium)	11.29	12.41
Expense ratio (management expenses/gross written premium)	17.54	17.65


MY FIRST
LOVE IS THE SOURCE
OF MY HAPPINESS
Her name is Black Spear, my first love, I like spending time with her, going for washes together, taking care of her and when she needs something I'll always go out of my way to get it. Anytime she's not okay it takes a toil on me. She's my everything and I wouldn't want anything to happen to her. This is why I didn't hesitate to take the APA motor insurance to keep my car insured against accidents and theft, I love her too much.
APA, Motor Insurance

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